



March 30, 2024

# Charles Schwab Investment Management, Inc. Disclosure Brochure

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**This brochure provides information about the qualifications and business practices of Charles Schwab Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 1-877-824-5615. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.**

**Additional information about Charles Schwab Investment Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Summary of Material Changes**

**(As of March 30, 2024, since prior annual update on March 31, 2023)**

On March 30, 2024, the Charles Schwab Investment Advisory, Inc. (“CSIA”) portfolio management teams that managed the Schwab Intelligent Portfolios® (the “SIP Program”) and the SIP Program assets were integrated into Charles Schwab Investment Management, Inc. (“CSIM”), and CSIM assumed fiduciary responsibilities for the SIP Program and its assets. Also, in September 2023, CSIM became the investment adviser, and assumed fiduciary responsibility, for the Selective Portfolios strategies and their assets. As a result of these changes, material changes were made throughout the brochure to incorporate the SIP Program and Selective Portfolios.

### **Item 4 – Advisory Business**

- CSIM has updated the disclosure to reflect the investment management services it provides for clients including those in the SIP Program and Selective Portfolios.

### **Item 8 – Methods of Analysis, Investment Strategy and Risk of Loss**

- CSIM has modified the discussion of its methods of analysis and investment strategies, and certain risks currently disclosed in the brochure where CSIM believes that additional disclosure would be beneficial to investors in the current market environment and to reflect the SIP Program and Selective Portfolios.

### **Item 9 – Disciplinary Information**

- CSIM has added disclosure regarding a disciplinary matter relating to the SIP Program that occurred prior to CSIM assuming fiduciary responsibilities for the SIP Program and its assets.

### **Item 10 – Other Financial Industry Activities and Affiliations**

- CSIM has modified the discussion of its relationship with affiliates to disclose new and modified relationships.

### **Item 12 – Brokerage Practices**

- CSIM has updated information pertaining to its trading process for the different types of accounts it manages and the relationships among the trading group and portfolio management groups.

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## Item 4 – Advisory Business

Charles Schwab Investment Management, Inc., a Delaware corporation (“CSIM”) that is doing business as Schwab Asset Management™, was founded in 1989 as a wholly-owned subsidiary of The Charles Schwab Corporation (“CSCorp.”), a Delaware corporation that is publicly traded and listed on the New York Stock Exchange. CSIM provides advisory services to separately managed accounts (“SMAs”), registered investment companies, which include mutual funds and exchange-traded funds (“ETFs,” and collectively with the mutual funds, “Registered Funds”), and collective investment trusts. As further described in the “Methods of Analysis, Investment Strategies and Risk of Loss” section, CSIM provides advice about a variety of investments, ranging from equity and fixed income to money market securities and also provides advice as to the selection of investment advisers and pooled investment vehicles for certain clients.

CSIM serves as investment adviser to Registered Funds and provides investment management and administrative services to those Registered Funds. With respect to the Registered Funds it manages, CSIM utilizes different methods of analysis that are tailored to each Registered Fund’s investment objective and strategies and are described, along with applicable risks, in their respective prospectuses and statements of additional information. The Registered Funds’ prospectuses, statements of additional information and applicable law also impose restrictions on investing in certain securities or types of securities.

CSIM provides investment management services for various SMA strategies (“SMA Strategies”). These SMA Strategies include Schwab Intelligent Portfolios® (the “SIP Program”), Schwab Managed Portfolios™ (the “SMP Program”), Schwab Personalized Indexing™ (“SPI”), Selective Portfolios, ThomasPartners® Strategies, USAA Managed Portfolios - UMP™ (the “UMP Program”), Wasmer Schroeder™ Strategies and Windhaven® Strategies. Depending on the SMA Strategy, CSIM’s clients may include those with whom CSIM has a direct contractual relationship through an investment advisory agreement (“Direct Clients”), those who have enrolled in asset-based wrap fee (“Wrap Fee Programs”) and similar programs offered through broker-dealers (“Broker/Custodian-Related Programs”), and clients of other wealth managers (“Primary Advisors”) for programs and relationships in which CSIM acts as an adviser or a sub-adviser.

The affiliated Wrap Fee Programs in which CSIM’s SMA Strategies are made available include the Managed Account Access®, Managed Account Connection®, Schwab Intelligent Portfolios, and Schwab Managed

Portfolios programs (the “Schwab Managed Account Programs”) sponsored by Charles Schwab & Co., Inc. (“Schwab”). Certain of CSIM’s SMA Strategies are also made available through Schwab’s Managed Account Marketplace® platform.

On March 30, 2024, the Charles Schwab Investment Advisory, Inc. (“CSIA”) portfolio management team that managed the SIP Program and the SIP Program assets were integrated into CSIM, with CSIM assuming fiduciary responsibilities for the SIP Program and its assets. The SIP Program is also used to provide discretionary portfolio management in Schwab Intelligent Portfolios Premium® (the “SIP Premium Program”). The SIP Program and SIP Premium Program are each sponsored by Schwab. In September 2023, CSIM became the investment adviser, and assumed fiduciary responsibility, for the Selective Portfolios strategies and their assets. This is as a result of the 2019 CSCorp. acquisition of TD Ameritrade, Inc. (“TDA”) and its related businesses, including TD Ameritrade Investment Management, Inc. (“TDAIM”). In September 2023, the Selective Portfolios strategies accounts for which TDAIM provided discretionary services transitioned from TDA to Schwab (the “Transition”), at which point Schwab became the sponsor, and CSIM became the investment adviser, of the Selective Portfolios strategies through the Managed Account Connection program.

CSIM provides non-discretionary investment management advice to Charles Schwab Trust Bank (“CSTB”), which is an affiliate of CSIM. CSTB maintains and advises collective investment trusts. As required by applicable law, CSTB retains ultimate investment discretion over the collective investment trusts and follows or rejects CSIM’s recommendations. CSIM tailors its recommendations to CSTB based on a collective investment trust’s specific investment objectives and investment strategies as set forth in its governing and/or offering documents. A collective investment trust’s governing and/or offering documents may also impose restrictions on investing in certain securities or types of securities.

CSIM also provides model portfolios, including models based on certain SMA Strategies (excluding Wasmer Schroeder Strategies), to sponsors of certain advisory programs and platforms and other financial intermediaries (“Sponsors”) on a non-discretionary basis. In these arrangements, the Sponsors and/or the investment advisers participating in these advisory programs and platforms have the ultimate decision making and discretionary responsibility for the determination of which securities are to be purchased and sold for their account and effect all security transactions in connection with such determinations. CSIM does not have any transparency into which securities are ultimately purchased or sold, or the ending portfolio weighting of the accounts of

such advisory programs. In addition, CSIM has no specific knowledge of the Sponsor's clients or their circumstances.

CSIM provides model portfolios to its affiliate, Charles Schwab Trust Company ("CSTC"), in connection with the management of trust assets. CSTC is responsible for determining the models to be used for trust assets and has the ultimate decision making and discretionary responsibility for the determination of which securities are to be purchased and sold for trust accounts. At CSTC's direction, CSIM directs trades for these trust accounts to its affiliate, Schwab. CSIM also provides model portfolios to its affiliate, Schwab for its platform. CSIM is not responsible for determining which securities to buy or sell for those using the model portfolios provided to Schwab. There may be differences between the model portfolios provided to Sponsors, CSTC, Schwab, and the portfolios CSIM manages for its discretionary clients that follow the same or a similar investment strategy. These differences result from various factors, including but not limited to: cash availability, investment restrictions, timing of transactions, account size, holding limits, tax considerations and trade execution. As a result, the performance of CSIM's discretionary advisory client portfolios and that of a model portfolio following the same or similar investment strategy may differ.

Lastly, CSIM provides models based on the Wasmer Schroeder Strategies to Sponsors on a discretionary basis ("Wasmer Schroeder Discretionary Models"), meaning CSIM has discretionary responsibility for determining which securities are to be purchased and sold and effects all security transactions in connection with such determinations. For more information regarding transactions involving model portfolios, see the section entitled "Brokerage Practices".

CSIM sponsors, develops, coordinates the calculation of and maintains indexes (each, an "Index") based on investment and trading strategies and concepts developed by CSIM. Some of the Registered Funds for which CSIM acts as investment adviser seek to track the performance of the Indexes by investing in the constituents of such Indexes or a representative sample of such constituents of the Indexes. CSIM publishes Index constituent data on a daily basis and Index returns on a monthly basis.

As of December 31, 2023, CSIM managed approximately \$1,075,886,037,387 in client assets on a discretionary basis and approximately \$22,919,359,801 in client assets on a non-discretionary basis. Client assets do not include those of the SIP Program or SIP Premium Program, which were \$65,884,687,119 and \$12,253,310,190, respectively, at December 31, 2023. Client assets include investments in Registered Funds managed by CSIM.

## **Item 5 – Fees and Compensation**

### **Pooled Investment Vehicles**

As described above, CSIM serves as investment adviser to certain Registered Funds and provides investment management and administrative services to those Registered Funds. The fees paid to CSIM by the Registered Funds are (i) based upon a percentage of each Registered Fund's averaged daily net assets, (ii) described in their respective prospectuses and statements of additional information, and (iii) reflected in their financial statements, which are included in shareholder reports. For certain Registered Funds, CSIM and its affiliates have agreed to reimburse those Registered Funds to the extent that the Registered Funds' total annual operating expenses exceed a specified limitation.

### **Non-Discretionary Investment Advice**

Pursuant to an agreement between CSIM and CSTB, CSIM is entitled to receive a fee from CSTB based on the costs incurred by CSIM to provide the services, utilizing a cost allocation methodology agreed upon between CSIM and CSTB. The fee is payable monthly to CSIM. Collective investment trusts may incur custodian fees, brokerage fees and other transaction costs in connection with purchasing or selling securities recommended by CSIM and may also incur expenses related to underlying pooled investment vehicles. CSIM's fees do not cover the costs of operating the collective investment trusts in general, such as legal fees, audit expenses, and trustee's fees.

CSIM does not enter into agreements directly with the collective investment trusts and accordingly does not receive direct compensation from, or negotiate fees with, them.

### **Model Portfolios**

Generally, CSIM does not receive fees with respect to non-discretionary model portfolios it provides to unaffiliated Sponsors, CSTC and Schwab for its model platform. CSIM does receive a fee from unaffiliated Sponsors for non-discretionary ThomasPartners Strategies models based on a percentage of the Sponsor's client assets being managed pursuant to the models. CSIM also receives a fee for certain models provided to CSTC based on a percentage of assets being managed pursuant to CSIM's models. Lastly, CSIM receives a fee for Wasmer Schroeder Discretionary Models based on a percentage of the Sponsor's client assets being managed pursuant to the models. CSIM and its affiliates receive fees from any investments in CSIM managed Registered Funds that are included in the model portfolios. If CSIM includes third party mutual funds or ETFs in any model portfolios pursuant to an

agreement with such third party, CSIM or its affiliates may receive fees from such third party based on assets attributable to such funds being managed pursuant to CSIM's models.

### **SMA Strategies Fees**

In connection with the SMA Strategies it advises, CSIM receives fees from Direct Clients, program sponsors of Wrap Fee Programs, Broker/Custodian-Related Programs, and Primary Advisors. CSIM does not negotiate fees with clients in Wrap Fee Programs, in Broker/Custodian-Related Programs or generally those with a Primary Advisor. CSIM does not receive direct compensation from clients in Wrap Fee Programs or Broker/Custodian-Related Programs. In a Wrap Fee Program, typically clients pay a single fee for advisory, brokerage and custodial services to the program sponsor, and the program sponsor pays CSIM an advisory fee based on assets managed by CSIM in the program. Client's portfolio transactions may be executed without a commission charge in a wrap fee arrangement depending on whether or not securities are traded away from the program sponsor. In evaluating a Wrap Fee Program, the client should also consider that, depending upon the level of the wrap fee charged by Wrap Fee Program sponsor, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. Such clients should review their Wrap Fee Program's applicable disclosure brochure or reach out to their Primary Advisor. Fees for Direct Clients and SMA Strategies only available through Schwab Managed Account Programs are described below. Fees for Wrap Fee Programs, including the Schwab Managed Account Programs, Broker/Custodian-Related Programs, or fees from Primary Advisors can differ from Direct Client fees and from each other. Clients may pay different fees depending on whether they invest in an SMA Strategy as Direct Clients, clients of Primary Advisors, or through the Schwab Managed Account Programs, Schwab's Managed Account Marketplace platform, other Wrap Fee Programs and other Broker/Custodian-Related Programs.

### **Schwab Managed Account Programs**

CSIM participates as a portfolio manager in the Schwab Managed Account Programs. CSIM does not enter into agreements directly with Schwab Managed Account Program clients and does not receive direct compensation from or negotiate fees with them. Pursuant to an agreement between CSIM and Schwab, Schwab pays all costs and expenses incurred by CSIM in connection with the Selective Portfolios, SMP Program and UMP Program offered through the Schwab Managed Accounts Programs and

other services provided by CSIM to Schwab, plus an additional amount based on a fixed percentage of such costs and expenses. Pursuant to an agreement between CSIM and Schwab, Schwab pays all costs and expenses incurred by CSIM in connection with the SIP Program and SIP Premium Program and with other research services provided by CSIM, plus an additional amount based on a fixed percentage of such costs and expenses. Pursuant to an agreement between CSIM and Schwab, for SPI, ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies, CSIM is entitled to receive an annual fee from Schwab, payable monthly, based on strategy and a percentage on all Schwab Managed Account Program assets it manages.

Schwab also provides CSIM with human resources, legal, compliance, and other administrative and technological support services. The amount paid by Schwab to CSIM for the Selective Portfolios, SIP Program, SMP Program and UMP Program offered through the Schwab Managed Account Programs may be adjusted from time to time as more or fewer resources are required. Schwab may discount certain SMA Strategies' management fees for employees of Schwab and its affiliates. More specific information about the Schwab Managed Account Programs and the fees paid by clients who participate in the Schwab Managed Account Programs appears in Schwab's disclosure brochures for those programs, which are provided to program clients directly by Schwab.

### **Selective Portfolios, SMP Program, SPI and UMP Program**

Selective Portfolios, SMP Program, SPI and UMP Program, are offered through the Schwab Managed Account Programs. In addition to the program fee paid to Schwab for Selective Portfolios, SMP Program, SPI, or UMP Program, clients may incur additional costs. Schwab has a policy to waive all of its trading commissions, if any, on Selective Portfolios, SMP Program, SPI, and UMP Program accounts managed by CSIM in the Schwab Managed Account Programs. In the event any such commissions are inadvertently charged, Schwab and CSIM will use good faith efforts to reimburse such commissions promptly after discovery. Please note that Schwab's waiver does not extend to any other non-Schwab broker fees, commissions, account fees, or expenses.

### **SIP Program and SIP Premium Program Additional Costs**

Schwab does not charge an advisory fee for the SIP Program in part because of the revenue Charles Schwab Bank, SSB ("Schwab Bank") generates from the cash allocation in the SIP Program account (the "SIP Cash Allocation"), an indirect cost of the SIP Program.

The SIP Cash Allocation that is deposited at Schwab Bank is insured by the Federal Deposit Insurance Corporation (“FDIC”) up to the applicable FDIC limits. As program sponsor, Schwab sets the SIP Cash Allocation percentage for each of the investment strategies and considers among other factors the expected revenue Schwab Bank earns from the SIP Sweep Program. The higher the SIP Cash Allocation and the lower the interest rate paid, the more Schwab Bank earns, thereby creating a conflict of interest for Schwab and for CSIM. Under certain market conditions, the SIP Cash Allocation results in lower overall portfolio performance, for example when other riskier assets outperform cash.

Although some clients may qualify for discounts, the SIP Premium Program fee and the Schwab Intelligent Advisory® Legacy Program fee, described in the Schwab Intelligent Portfolios Solutions disclosure brochure, are generally not negotiable.

As further detailed in the Schwab Intelligent Portfolios Solutions disclosure brochure, clients are not charged an annual program fee; however, the SIP Program is not free of charge. Clients pay the operating expense ratio (“OER”) of ETFs used in the portfolios, including Schwab ETFs which affects the performance of SIP Program accounts. Account performance is also affected by the SIP Cash Allocation in a client’s account and the Schwab Intelligent Portfolios Sweep Program (“SIP Sweep Program”). Schwab, CSIM and their affiliates earn compensation from certain ETFs used in the portfolios and from the SIP Cash Allocation and SIP Sweep Program described in the Schwab Intelligent Portfolios Solutions disclosure brochure provided to SIP Program clients. Schwab will waive all of its trading commissions on SIP Program accounts managed by CSIM. There is no additional planning or advisory fee for the activation or use of the Schwab Intelligent Income® (“SII”) feature described in the Schwab Intelligent Portfolios Solutions disclosure brochure or the tax-loss harvesting feature. Please note that Schwab’s waiver does not extend to any other non-Schwab broker fees, commissions, account fees, or expenses.

### **ThomasPartners Strategies**

For Direct Client accounts, CSIM will charge an annual investment management fee (“ThomasPartners Fee”) on a quarterly basis dependent on the strategies utilized as follows: 1.00% on assets up to \$2 million; 0.75% on assets between \$2 million and \$5 million; and 0.60% on assets greater than \$5 million. Also, a small percentage of Direct Clients in the ThomasPartners Strategies have a flat fee arrangement. CSIM may deduct fees directly from the client’s custodial account, bill the client directly or bill the client’s Primary Advisor. Existing Direct Clients

can pay more or less than new Direct Clients. Exceptions to the fee schedule above are made at CSIM’s discretion.

Direct Client accounts may be combined for ThomasPartners Fee breakpoint purposes as requested by the client and subject to approval by CSIM. Individual Retirement Accounts (“IRAs”), Roth IRAs and Education IRAs and other personal retirement accounts generally may be aggregated for this purpose. However, other retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), may not be combined for ThomasPartners Fee breakpoint purposes unless they have identical account registrations. The accounts that may be aggregated are subject to negotiation (except ERISA accounts) and must be requested by the client for CSIM’s approval.

For Direct Clients, CSIM primarily uses prices supplied by a pricing vendor when valuing client assets for ThomasPartners Fee calculation purposes. The ThomasPartners Fee is calculated based on the average daily value of a Direct Client’s portfolio on each business day during the applicable quarter and is charged in arrears. For some Direct Clients, their custodian is responsible for the valuation and CSIM’s Fee calculation.

If the investment advisory agreement between Direct Clients and CSIM is terminated, CSIM’s compensation will be calculated based on the average daily value of the Direct Client’s portfolio for each business day prior to the date of termination then multiplied by the annual fee rate prorated for the number of calendar days in the quarter and then further prorated for the number of days managed during the quarter in which it was terminated.

For the accounts of some Direct Clients referred to CSIM through a solicitor’s agreement (i.e., an agreement by which CSIM agrees to pay a fee for such referrals), the annual rate upon which the ThomasPartners Fee is calculated can be up to 0.25% higher than those discussed above and is reflected in the applicable investment advisory agreement entered into with such Direct Clients. Fees are not negotiable for these Direct Clients, except in rare circumstances.

### **Wasmer Schroeder Strategies**

Annual fees for Direct Clients and clients with a Primary Advisor are based upon a percentage of assets under management and generally range from 0.08% to 0.75%. Also, some Direct Clients in the Wasmer Schroeder Strategies have a flat fee arrangement. Fees are payable in arrears, monthly or quarterly, as determined by the client’s specific arrangement. CSIM may deduct fees directly from the client’s custodial account, bill the client directly or bill the client’s Primary Advisor. Fees are negotiable based on certain factors

including, but not limited to, the size, complexity and investment objectives of the client's account. Exceptions to the fee schedule above are made at CSIM's discretion.

After the end of a quarter and after account fees have been calculated, the market value of a portfolio may be adjusted due to several reasons (pricing, trade away fees, pay down and factor adjustment for mortgage-backed securities, etc.). This can result in a change to the account fee for that quarter. Account fees paid in advance will not be adjusted if the increase or decrease in the fee represents less than 5% of the fee adjustment (a \$1,000 fee will not be adjusted if the net increase or decrease is less than \$50).

The annualized fees are charged as a percentage of assets under management. If the investment advisory agreement between Direct Clients and CSIM is terminated, CSIM's compensation will be calculated based on fees that are prorated for the period that the account was being managed. When fees are calculated by the third party, CSIM relies on the third party calculation. These calculations are reviewed for accuracy and if there is a material difference, CSIM will reach out to the third party.

For clients, other than Wrap Fee Program clients, CSIM primarily uses prices supplied by a pricing vendor when valuing client assets for fee calculation purposes. The fee is calculated based on the month-end value during the applicable quarter and is charged in arrears. For some Direct Clients, Primary Advisor client accounts, and Broker/Custodian-Related Program accounts, CSIM uses prices supplied by their custodian.

Direct Clients are subject to CSIM's, or its predecessor's, minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, CSIM's minimum account requirements and fee arrangements will differ among clients.

### **Windhaven Strategies**

For Direct Client accounts, CSIM will charge an annual investment management fee ("Windhaven Fee") on a quarterly basis as follows: 1.00% of assets on the first \$5 million; 0.85% of assets on the next \$5 million; 0.75% of assets on the next \$15 million; 0.60% of assets on the next \$25 million; and 0.50% of assets on amounts over \$50 million. CSIM may deduct fees directly from the client's custodial account, bill the client directly or bill the client's Primary Advisor. Exceptions to the fee schedule above are made at CSIM's discretion.

Direct Client accounts may be combined for Windhaven Fee breakpoint purposes as requested by the client and subject to approval by CSIM. IRAs and other personal retirement accounts generally may be aggregated for this purpose. However, other

retirement plan accounts subject to ERISA, may not be combined for Windhaven Fee breakpoint purposes unless they have identical account registrations. The accounts that may be aggregated are subject to negotiation (except ERISA accounts) and must be requested by the client for CSIM's approval.

For Direct Clients, CSIM primarily uses prices supplied by a pricing vendor when valuing client assets for Windhaven Fee calculation purposes. The Windhaven Fee is calculated on the basis of the average daily value of a Direct Client's portfolio on each business day during the applicable quarter and is charged in arrears. For some Direct Clients where CSIM acts as the sub-advisor, the Primary Advisor is responsible for the valuation and Windhaven Fee calculations.

If the investment advisory agreement between Direct Clients and CSIM is terminated, CSIM's compensation will be calculated based on the average daily value of the Direct Client's portfolio for each business day prior to the date of termination then multiplied by the annual fee rate prorated for the number of calendar days in the quarter and then further prorated for the number of days managed during the quarter in which it was terminated.

### **Additional Fees for Direct Clients**

In addition to the fees described above for ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies, clients will incur additional costs, which include fees charged by the client's custodian for account maintenance, and may also include transaction fees, commissions, mark-ups and mark-downs, or brokerage fees on the purchase and sale of securities in their accounts. Such costs will be paid directly from clients' accounts to the broker-dealer who completes the purchase or sale. For those clients that have selected Schwab as their custodian, Schwab has a policy to waive all of its trading commissions, if any, on those accounts managed by CSIM. In the event any such commissions are inadvertently charged, Schwab and CSIM will use good faith efforts to reimburse such commissions promptly after discovery. Please note that Schwab's waiver does not extend to any other non-Schwab brokerage fees.

ETFs and mutual funds held in the SMA Strategies are subject to operating expenses and fees as set forth in the prospectuses of those funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders, and are in addition to the SMA Strategies fee. Clients pay the OERs of funds used in the portfolios, which affects the performance of the SMA Strategies accounts. CSIM may also provide access to certain ETFs, mutual funds, or classes of funds that a client might normally not be qualified to purchase. If an account terminates, these



investments may be liquidated or exchanged for the share class available for the particular client's individual investment in the fund.

Information relating to CSIM's brokerage practices is included in the "Brokerage Practices" section of this brochure.

## **Item 6 – Performance-Based Fees and Side-by-Side Management**

Not applicable.

## **Item 7 – Types of Clients**

CSIM provides discretionary investment advice to Registered Funds. CSIM also provides non-discretionary investment advice to trustees of collective investment trusts. In addition, CSIM provides discretionary investment advice to the SMA Strategies. As noted below, the SMA Strategies have minimum investment requirements imposed by CSIM, sponsors of Wrap Fee Programs, including the Schwab Managed Account Programs, brokers and custodians for Broker/Custodian-Related Programs, or by Primary Advisors that can differ from each other. If the market value of a client account falls below this specified minimum due to withdrawal of assets from the account, clients may be required to deposit additional money or securities to bring the account up to the required minimum, and CSIM reserves the right to discontinue management of such client accounts. Exceptions to this policy for Direct Clients are made at CSIM's discretion. In addition, SMA client accounts may not hold all of the same securities due to a variety of reasons, including, but not limited to, the price of portfolio securities, an account's lower balance or client imposed investment restrictions. Performance may be lower or higher for such client accounts. For SMA Strategies where clients can request tax gain/loss harvesting, there is a minimum gain or loss per security in order for CSIM to implement this request. Lastly, CSIM provides model portfolios to unaffiliated Sponsors, CSTC and Schwab.

### **Selective Portfolios**

Clients of Selective Portfolios in the Schwab Managed Account Programs primarily include individuals, trusts or corporations. Government entities and certain accounts subject to ERISA are not eligible for Selective Portfolios. The minimum investment required to open an account in Selective Portfolios in the Schwab Managed Account Programs is at least \$25,000 per account. The Selective Portfolios strategies are closed to new enrollments by new clients. Only clients who already have a Selective Portfolios account as of the Transition, will be able to open new Selective Portfolios accounts.

### **SIP Program**

Pursuant to the enrollment criteria established by Schwab, clients of the SIP Program primarily include individuals, living trusts, and IRAs. Organizations, such as corporations, limited liability companies and limited partnerships, may also participate in the SIP Program as a client. These types of clients may not have the same client experience as individuals or trust clients. Government entities and accounts that are subject to ERISA, are not eligible for the SIP Program.

To be initially invested in an investment strategy, clients must meet all requirements of Schwab to open an account in the SIP Program and fund it with the applicable minimums. SIP clients must establish their account with a minimum of \$5,000 in each account. There is also a minimum balance requirement to request that CSIM employ a tax-loss harvesting strategy, and a minimum balance requirement to maintain a tax-loss harvesting strategy.

Schwab may terminate a client from the SIP Program for failing to fund or maintain their account with the required minimum, for failure to maintain a valid email address, or for any other reason, at Schwab's sole discretion. Upon unenrollment from the SIP Program, the client's enrollment in the SIP Sweep Program will terminate and the account will no longer be managed.

### **SMP Program**

Clients of the SMP Program in the Schwab Managed Account Programs primarily include individuals, trusts (including trusts directed by an affiliate), charitable organizations, investment clubs, corporations, and other business organizations. Government entities and certain accounts subject to ERISA are not eligible for the SMP Program. ERISA accounts are only eligible for SMP-Mutual Fund Third Party strategies composed entirely of third-party mutual funds. The minimum investment required to open an account in the SMP Program in the Schwab Managed Account Programs is \$25,000 for all account types.

### **SPI**

Clients of SPI in the Schwab Managed Account Programs primarily include individuals, trust or corporations. Accounts subject to ERISA and tax-exempt/tax-deferred accounts are not eligible for SPI. The minimum investment required to open an account in SPI in the Schwab Managed Account Programs is at least \$100,000 per account.

### **ThomasPartners Strategies**

Clients of ThomasPartners Strategies primarily include individuals, trusts, estates, charitable organizations, retirement plans, pension and profit-sharing plans, state or municipal government entities and other

corporations, business entities, or investment advisers. Certain accounts subject to ERISA are not eligible for the ThomasPartners Strategies on the Schwab Managed Account Programs or for other Wrap Fee Programs. The minimum investment required for a Direct Client in ThomasPartners Strategies is at least \$100,000 per account and \$500,000 per household. For Direct Clients, exceptions to the minimum investment requirement are made at CSIM's discretion.

### **UMP Program**

Clients of the UMP Program in the Schwab Managed Account Programs primarily include individuals, trusts, estates, charitable organizations, retirement plans, pension and profit-sharing plans, other corporations, business entities, or investment advisers. Government entities and certain accounts subject to ERISA are not eligible for the UMP Program. The minimum investment required to open an account is \$25,000 for UMP Wrap (a mutual fund and ETF wrap program) accounts and generally \$500,000 for UMP Custom (a unified managed account program) accounts in the Schwab Managed Account Programs. Certain types of securities and asset allocation strategies within UMP Custom have higher minimums. The UMP Program is closed to new enrollments by new clients. Only clients who already had UMP Program accounts as of May 26, 2020, can open new UMP Program accounts.

### **Wasmer Schroeder Strategies**

Clients of Wasmer Schroeder Strategies primarily include individuals, trusts, banking or thrift institutions, charitable organizations, pension and profit-sharing plans (other than plan participants), investment companies, pooled investment vehicles (other than investment companies), state or municipal government entities, insurance companies, and corporations or other business entities not listed above. Certain accounts subject to ERISA are not eligible for the Wasmer Schroeder Strategies on the Schwab Managed Account Programs. The minimum investment required to open a Direct Client account in a Wasmer Schroeder Strategy varies by strategy, but is at least \$500,000 per account. For Direct Clients, exceptions to the minimum investment requirement are made at CSIM's discretion.

### **Windhaven Strategies**

Clients of Windhaven Strategies primarily include individuals, trusts, estates, charitable organizations, retirement plans, pension and profit-sharing plans, state or municipal government entities and other corporations, business entities, or investment advisers. The minimum investment required for a Direct Client to open an account in a Windhaven Strategy is at least

\$100,000 per account. For Direct Clients, exceptions to the minimum investment requirement are made at CSIM's discretion.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

In managing discretionary client accounts, providing recommendations to non-discretionary clients and creating model portfolios, CSIM uses various investment strategies and methods of analysis, as described below. This section also contains a discussion of the primary risks associated with these investment strategies, although it is not possible to identify all of the risks associated with investing and the particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held. Where available, please refer to the applicable prospectus or other offering documents for a more detailed discussion of strategies and risks involved with your particular account.

While CSIM seeks to manage accounts so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

Clients should be aware that while CSIM does not limit its advice to particular types of investments, client mandates may be limited to certain types of securities (e.g., equities) or to the recommendation of investment advisers or pooled investment vehicles and may not be diversified. Unless specifically discussed with a client, the accounts managed by CSIM are generally not intended to provide a complete investment program for a client or investor and CSIM expects that the assets it manages typically do not represent all of the client's assets. Clients are responsible for appropriately diversifying their assets to guard against the risk of loss.

CSIM receives a broad range of research from a wide variety of sources that includes Schwab-affiliated entities, other brokers, and independent research providers, including issuers and trading partners. CSIM may use written reports prepared by recognized analysts who are specialists in the industry and may use computer-based models to assist in portfolio management. CSIM may also use statistical and other information published by third-party data providers, industry, and government, information gathered at meetings of professionals within the industry, and its own research of investment trends.

Certain CSIM portfolio managers make investment decisions for multiple client types and across multiple strategies or programs using various investment strategies. These portfolio management responsibilities create conflicts of interest. The conflicts of interest that arise in managing multiple accounts include, for example, conflicts among investment strategies, conflicts in the allocation of investment opportunities, or conflicts due to different fees. Some accounts have higher fees than others. Also, clients with larger assets under management generate more revenue for CSIM than smaller accounts. These differences give rise to a conflict that a portfolio manager would favor one account over another or allocate more time to the management of one account over another. CSIM portfolio management personnel make investment decisions based on the investment objectives and parameters set for each strategy or program. In addition, CSIM has adopted policies and procedures to address any conflicts of interest that may arise, including appropriate information barrier policies.

CSIM creates diversified portfolios that primarily consist of ETFs and/or mutual funds in a single account for several SMA Strategies and certain pooled investment vehicles it manages on a discretionary basis. CSIM also creates model portfolios that consist of ETFs and/or mutual funds and provides non-discretionary investment advice to CSTB regarding ETFs and/or mutual funds. In addition, CSIM also provides portfolio management for ThomasPartners Strategies, which invests primarily in dividend-paying stocks and fixed income investments, and pooled investment vehicles that invest in a variety of equity and fixed income securities. Each SMA Strategy, except the SIP Program, or pooled investment vehicle that CSIM manages maintains a cash component which may be invested in short-term debt instruments, a money market fund (which may be a Registered Fund managed by CSIM), a collective investment trust, an index futures contract or an ETF depending on the particular product or strategy. For the SIP program, the SIP Cash Allocation is invested in the SIP Sweep Program, which is described in the Schwab Intelligent Portfolios Solutions disclosure brochure provided to SIP Program clients. The guidelines for asset allocations CSIM has for each SMA Strategy, pooled investment vehicle, model portfolio, or CSTB collective investment trusts differ from the others. However, certain pooled investment vehicles may have substantially equivalent strategies. In such circumstances, the guidelines for multiple pooled investment vehicles CSIM manages may be substantially similar. There may be times when CSIM chooses the same ETF or mutual fund for different SMA Strategies, pooled investment vehicles, model portfolios, or CSTB collective investment trusts; however, portfolio management personnel make investment decisions based on the investment objectives

and parameters set for each SMA Strategy, pooled investment vehicle, model portfolio, or CSTB collective investment trusts. CSIM has adopted policies and procedures to address conflicts of interest that may arise.

### **Registered Funds Methods of Analysis and Investment Strategies**

With respect to the Registered Funds it manages, CSIM utilizes different methods of analysis that are tailored to each Registered Fund's investment objective and strategies and are described, along with applicable risks, in their respective prospectuses and statements of additional information. Shareholders of the Registered Funds and potential investors should carefully read the prospectuses and statements of additional information.

### **Non-Discretionary Methods of Analysis and Investment Strategies**

CSIM provides non-discretionary investment advice to CSTB with respect to collective investment trusts that encompass a number of distinct investment strategies, which are governed by each collective investment trust's governing and/or offering documents. Such non-discretionary investment advice includes periodic evaluation of the performance of third party sub-advisers and underlying pooled investment vehicles to the collective investment trusts, evaluation of compliance by the sub-advisers with any relevant policies and procedures, including best execution and other broker practices, and recommendations to select or terminate sub-advisers or underlying pooled investment vehicles. When providing recommendations to CSTB about the selection, monitoring and removal of sub-advisers or underlying pooled investment vehicles, CSIM considers both qualitative and quantitative factors. Quantitative statistics considered include, but are not limited to, risk adjusted results over multiple time periods relative to peer groups and benchmarks, and return patterns in rising and falling markets. The qualitative review includes, but is not limited to, strategy philosophy and process, investment team, firm, compliance, investment and operational risks, institutional experience, portfolio characteristics, and fit with other sub-advisers or underlying pooled investment vehicles in a portfolio context.

### **Selective Portfolios Methods of Analysis and Investment Strategies**

The Selective Portfolios strategies offer clients a portfolio of investments that may be comprised of mutual funds or ETFs in a single account managed on a discretionary basis. There are three types of Selective Portfolios: Core Mutual Fund, Core ETF and

Opportunistic. The Core Mutual Fund and Core ETF strategies use a strategic asset allocation approach. The Opportunistic strategies use a tactical asset allocation approach. The strategies generally consist of broadly diversified asset allocations that are reassessed on a periodic basis and as warranted by market conditions. However, the actual allocations will fluctuate (for example, in response to changing market conditions). In addition, the allocations are subject to change without notice. CSIM's management of Selective Portfolios strategies accounts will be different from your experience under TDAIM's management prior to the Transition.

The Selective Portfolios will be reviewed regularly and reallocated when deemed appropriate. In addition, there will be automatic drift-based rebalancing designed to keep the portfolio close to its target allocations over time. Through natural market movements, a security may drift from its target allocation. Drift-based rebalancing is designed to automatically bring a portfolio within its allocation bands. When certain parameters are triggered, a rebalance or reallocation occurs across the portfolio.

*Selective Portfolios Core Mutual Fund.* The strategies offer clients a portfolio of investments that is comprised of mutual funds and a portion of the account that is maintained in cash or cash alternatives. Eligible mutual funds include mutual funds that are managed by CSIM. The Selective Portfolios Core Mutual Fund strategies are available with five asset allocation models comprised of varying percentages, corresponding to risk tolerance levels including conservative, moderate, moderate growth, growth and aggressive. CSIM allocates assets among domestic equity, international equity, domestic fixed income, international fixed income and specialty mutual funds. Selective Portfolios Core Mutual Fund strategies are intended to be long-term investments (a minimum investment time horizon of one year). The actual portfolio allocations will from time to time differ from the target allocations as a result of market movements, rebalancing tolerances or adjustments. The cash will be held in a designated cash sweep vehicle, which may be a Registered Fund managed by CSIM. The underlying mutual funds may also contain residual or strategic cash positions.

*Selective Portfolios Core ETF.* The strategies offer clients a portfolio of investments that is comprised of ETFs and a portion of the account that is maintained in cash or cash alternatives. Eligible ETFs include Schwab ETFs, which are managed by CSIM. The Selective Portfolios Core ETF strategies are available with five asset allocation models comprised of varying percentages, corresponding to risk tolerance levels including conservative, moderate, moderate growth, growth and aggressive. CSIM allocates assets among domestic equity, international equity,

domestic fixed income, international fixed income and specialty ETFs. Selective Portfolios Core ETF strategies are intended to be long-term investments (a minimum investment time horizon of one year). The actual portfolio allocations will from time to time differ from the target allocations as a result of market movements, rebalancing tolerances or adjustments. The cash will be held in a designated cash sweep vehicle, which may be a Registered Fund managed by CSIM.

*Selective Portfolios Opportunistic.* The strategies seek long-term growth with a more tactically managed investment approach. They are designed for clients who prefer a more active portfolio as a complement to other investment strategies. The Selective Portfolios Opportunistic strategies offer clients a portfolio of investments that is comprised of ETFs and a portion of the account that is maintained in cash or cash alternatives. The Selective Portfolios Opportunistic strategies are available with two asset allocation models comprised of varying percentages, corresponding to risk tolerance levels including moderate growth and aggressive. The Selective Portfolios Opportunistic strategies use a tactical investment approach with an additional equity sector rotation strategy. The strategies use a tactical asset allocation method with more defined asset classes, such as domestic equity, international equity, domestic fixed income, international fixed income and liquid alternative ETFs, and generally involve a more active portfolio management strategy to pursue short-term opportunities in different sectors or countries based on changes in the market. The expanded asset classes allow for tactical shifts which is the reallocation of assets into sectors with potential larger returns and away from sectors with lower potential opportunities. The Selective Portfolios Opportunistic strategies are evaluated monthly to determine if they need to be rebalanced or reallocated. Since strategies using a tactical approach have more frequent trading, they may also have greater tax implications for taxable portfolios. The cash will be held in a designated cash sweep vehicle, which may be a Registered Fund managed by CSIM.

### **SIP Program Methods of Analysis and Investment Strategies**

The SIP Program offers clients a diversified portfolio composed of ETFs and the SIP Cash Allocation that is based on the client's stated investment objectives and risk tolerance. The portfolio of ETFs currently includes about 20 asset classes across stocks, fixed income, real estate, and commodities. Modifications to the number, and types, of asset classes included may occur at any time without prior notice to clients. The SIP Program is designed to monitor a client's portfolio daily and to automatically rebalance as needed to keep a client's portfolio consistent with their

selected risk profile unless such rebalancing may not be in the best interest of the client. The SIP Program is sponsored by CSIM's affiliate, Schwab, who has chosen CSIM to provide portfolio management services to the SIP Program accounts on a discretionary basis consistent within written investment parameters (the "Parameters") developed by Schwab and with clients' chosen investment strategy, and to direct appropriate trades in clients' accounts. The Parameters established by Schwab places limitations on the universe of ETFs that CSIM may select for the SIP Program. Also, Schwab acts as the qualified custodian for SIP Program accounts and provides trade routing and/or execution and related services for SIP Program accounts.

Schwab's Parameters are designed to support its philosophy of low-cost and index-based investing. In support of providing broadly diversified and risk-adjusted portfolios, eligible ETFs must accurately represent a particular asset class in the portfolio, meet sufficient liquidity standards, and be among the lowest cost (in terms of the OER) in their asset class or category. When it comes to replacing an ETF, CSIM also considers the potential impact to clients such as additional trading costs, or other costs. Eligible ETFs include Schwab ETFs, which are managed by CSIM. Schwab has instructed CSIM to select or retain Schwab ETFs in the portfolios as long as CSIM determines that they satisfy the above factors.

Beginning with those SIP Cash Allocation percentages, CSIM designs each SIP Program model portfolio to be consistent with a certain combination of investment return objectives and risk targets. Certain investment strategies are intended for taxable accounts and others for tax-deferred accounts. Certain investment strategies focus on higher-yielding (i.e., interest and dividend) asset classes. Only a subset of these strategies are available to clients who are taking recurring withdrawals through the SII feature. Upon request from Schwab, CSIM may add, remove, or change investment strategies used in the SIP Program.

CSIM will generally select both a primary and secondary ETF for each asset class in consideration of, among other things, tax-loss harvesting and requested investment restrictions. In limited circumstances, as determined by CSIM, only one ETF may be used in certain asset classes. In such cases, the tax-loss harvesting feature would not be available for execution in the affected asset class(es). To be eligible for consideration, ETFs designated as the primary ETF in an asset class are targeted to have a share price less than a cap that is necessary to enable trading in accounts with lower balances; although, certain accounts that are below the \$5,000 minimum may not hold all positions.

CSIM receives a broad range of research from a wide variety of sources that include Schwab-affiliated entities

and independent research providers, including issuers. CSIM may use written reports prepared by recognized analysts who are specialists in the industry and uses computer-based models and the SIP Algorithms, as defined below, to assist in portfolio management. The SIP Program portfolio management team has discretion to override the models and the SIP Algorithms and decline to trade during unusual market conditions or due to system limitations. CSIM may also use statistical and other information published by third-party data providers, industry, and government; information gathered at meetings of professionals within the industry; and its own research of investment trends. More information about the Selection of ETFs, SIP Cash Allocation, SIP Sweep Program, and conflicts of interest and how they are addressed can be found in the Schwab Intelligent Portfolios Solutions disclosure brochure, as well as the Schwab Intelligent Portfolios Sweep Program Disclosure Statement provided to SIP Program clients.

The SIP Program is also used to provide discretionary portfolio management in SIP Premium Program, sponsored by Schwab. The SIP Premium Program combines the SIP Program as described above with additional features of financial planning and guidance from a Schwab financial planner ("Financial Planner") and access to online financial planning tools. In addition, upon clients' request to initiate recurring withdrawals through the SII feature described in the Schwab Intelligent Portfolios Solutions disclosure brochure, an algorithm (the "SII Algorithm") is activated to enable withdrawals while the account assets remain invested through the SIP Premium Program. Unless otherwise indicated, descriptions of portfolio management through the SIP Program apply to SIP Premium, as well. This brochure, combined with the Schwab Intelligent Portfolios Solutions disclosure brochure, contains details about the SIP Program and SIP Premium Program, including a description of the automated daily review of client accounts and holdings to identify rebalancing and tax-loss harvesting opportunities as well as initiate buy/sell orders that are identified (collectively, the "Rebalancing Algorithms") of the SIP Program and SIP Premium Program. "SIP Algorithms" refers to the Rebalancing Algorithms and the SII Algorithm unless otherwise indicated.

The Rebalancing Algorithms work to maintain asset class diversification for each portfolio within defined parameters and subject to the limitations described below and in the Schwab Intelligent Portfolios Solutions disclosure brochure. Funding an account with a combination of securities that are and are not already included in the client's recommended Program portfolio can cause additional rebalancing transactions in a portfolio.

Schwab offers the SIP Program online through an interactive website and mobile application (collectively, the “Website”). Clients use the Website and answer questions from an online questionnaire that help determine whether the SIP Program is appropriate for them. The Website also presents a suggested SIP Program portfolio based on the client information for client’s review and approval. Prior to enrollment, clients are asked to carefully consider whether their participation in the SIP Program and whether their selected SIP Program portfolio are appropriate for their investment needs and goals. Once enrolled, SIP Program clients can update their investment profile or monitor their accounts’ allocation, activity, and performance through a customized dashboard. Clients should periodically review their existing investment risk profile and update it when their goals, risk tolerance, or other aspects of their financial situation change.

Clients agree to accept electronic delivery of contracts, disclosure documents, prospectuses, statements, and other materials. More information about the SIP Program is available in the Schwab Intelligent Portfolios Solutions disclosure brochure provided to SIP Program clients.

The Website allows prospective clients to review information about the SIP Program, including general information on the types of ETFs included, as well as information about CSIM’s approach to allocating client accounts. Clients may also monitor their portfolio’s allocation and activity, monitor their account’s performance, and use a goal tracking tool to monitor whether their account is on target to reach their savings or income goal. Clients may also initiate deposits and withdrawals from existing SIP Program accounts or open new SIP Program accounts. The investment strategies employed in each SIP Program account are governed by a client’s agreement with Schwab.

Like the SIP Program, SIP Premium Program clients may complete an online questionnaire which results in the recommendation of a diversified portfolio based on clients’ stated investment profile and risk tolerance. Alternatively, SIP Premium Program clients may receive a recommended portfolio from the Schwab Financial Planner based on a review of the clients’ stated investment profile and risk tolerance for the applicable accounts. More information about the SIP Premium Program is available in the Schwab Intelligent Portfolios Solutions disclosure brochure provided to SIP Premium Program clients.

### **SMP Program Methods of Analysis and Investment Strategies**

The SMP Program consists of various investment strategies, selected by clients, and consists of either mutual funds (“SMP-MF”) or ETFs (“SMP-ETF”), bought and sold for clients on a discretionary basis, as well

as a cash investment. CSIM utilizes a proprietary process and models to help guide investment decisions and seeks to manage portfolio risk. The strategies are broadly diversified across asset classes. Understanding and modeling risks is a research priority. Assets in the SMP Program are primarily invested in Registered Funds. CSIM creates diversified portfolios of Registered Funds combined with a cash investment in a single account for the SMP Program. Each portfolio is designed so that the asset allocation is consistent with a certain combination of investment objectives and risk tolerance. Within both SMP-MF and SMP-ETF, CSIM may implement limited deviations from the strategic allocation (“tactical allocations”). CSIM may be limited in its ability to make asset allocation adjustments due to frequent trading restrictions or redemption fee policies of the underlying mutual fund companies. Also, certain portfolios are intended for taxable accounts and others for tax-deferred accounts. Certain portfolios are intended for clients who are looking for some level of income generation. Please see Schwab’s disclosure brochure for Schwab Managed Portfolios for additional details on the SMP Program strategies.

### **SPI Methods of Analysis and Investment Strategies**

Each SPI strategy is designed to provide exposure to a client’s selected equity market segment while seeking to enhance after-tax returns relative to the client’s designated index. SPI strategies are benchmarked to a specific index chosen by the client. SPI strategies typically invest directly in an optimized subset of the securities that seeks to track the performance of the designated index by attempting to mimic the characteristics of the designated index, such as the designated index’s exposure and risk characteristics. SPI strategies invest both in securities of issuers included in the designated index and securities of issuers that are not included in the designated index. The securities selected for a client’s account can be individually tailored based on a client’s investment restrictions and account size, as well as tax attributes of the assets held in the account. At times, an index may provide exposure to publicly traded-partnerships which can generate Internal Revenue Service (“IRS”) Schedule K-1 tax forms. The following is an overview of the SPI designated indexes that a client can choose for its account:

*Schwab 1000 Equity.* The strategy seeks to track the performance of and mimic characteristics of the Schwab 1000 Index<sup>®</sup> while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in equity securities. The Schwab 1000 Index is a float-adjusted market capitalization weighted index that includes the 1,000 largest stocks of publicly

traded companies in the U.S., with size being determined by market capitalization (total market value of all shares outstanding). CSIM will actively trade holdings for accounts in this strategy in an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the Schwab 1000 Index, it will not always be aligned to the index.

*S&P Small Cap 600.* The strategy seeks to track the performance of and mimic characteristics of the S&P SmallCap 600<sup>®</sup> Index while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in equity securities. The S&P SmallCap 600 Index is a float-adjusted market capitalization weighted index that seeks to measure the small-cap segment of the US equity market. The index is designed to track companies that meet specific inclusion criteria to ensure they are liquid and financially viable. CSIM will actively trade holdings for accounts in this strategy in an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the S&P SmallCap 600 Index, it will not always be aligned to the index.

*MSCI KLD 400 Social.* The strategy seeks to track the performance of and mimic characteristics of the MSCI KLD 400 Social Index while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in equity securities. The MSCI KLD 400 Social Index is a capitalization weighted index of 400 U.S. securities that provides exposure to companies with outstanding Environmental, Social and Governance (“ESG”) ratings and excludes companies whose products have negative social or environmental impacts. CSIM will actively trade holdings for accounts in this strategy in an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the MSCI KLD 400 Social Index, it will not always be aligned to the index.

*MSCI EAFE International.* The strategy seeks to track the performance of and mimic characteristics of the MSCI EAFE Index while enhancing after-tax returns through the use of tax-efficient optimization methodologies. The strategy invests primarily in American Depositary Receipts (“ADRs”) and equity securities of MSCI EAFE Index issuers that are traded on U.S. stock exchanges. The MSCI EAFE Index is a free float-adjusted, market capitalization-weighted index designed to measure large- and mid-capitalization equity market performance of developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. CSIM will actively trade holdings for accounts in this strategy in

an attempt to enhance after-tax returns through tax-efficient optimization methodologies. While this strategy looks to approximate the pre-tax return and risk characteristics of the MSCI EAFE Index, it will not always be aligned to the index.

SPI strategies are only available for taxable accounts. CSIM seeks to opportunistically harvest net realized capital losses to provide improved returns over the designated index on an after-tax basis. This is achieved by utilizing tax-efficient optimization methodologies such as tax-loss harvesting, while also accounting for tracking the designated index. Tax-loss harvesting generally means selling a security that has lost value in order to offset capital gains on the investor’s tax return. In order to preserve a “harvested” loss CSIM will seek to avoid transactions which may cause a violation of applicable wash sale rules. However, while CSIM will monitor for wash sales within an SPI account, CSIM does not prevent wash sales in all cases, and as a result wash sales may occur from trading in multiple accounts held by a client, including multiple SPI accounts held by the same client.

### **ThomasPartners Strategies Methods of Analysis and Investment Strategies**

For the ThomasPartners Strategies, CSIM utilizes a proprietary process to help guide investment decisions. The ThomasPartners Strategies offer two types of investment approaches: strategies that focus primarily on equity securities, and strategies that blend equities and fixed income. For the equity portion of both types of strategies, CSIM invests primarily in dividend paying stocks from companies that it believes have the ability to grow their dividends. Most of the investments are in large-cap U.S.-based stocks, with lesser allocations to mid- and small-cap common stocks, international common stocks, and domestic Master Limited Partnerships (“MLPs”) or Real Estate Investment Trusts (“REITs”). Investments may also include mutual funds and ETFs. For the fixed income portion of the strategies, CSIM invests directly and indirectly (typically through ETFs) in U.S. treasuries, agencies, corporate and/or municipal bonds, high yield bonds, bank loans, and other fixed income sectors deemed appropriate by the ThomasPartners Strategies portfolio management team. CSIM typically uses ETFs to gain exposure to fixed income for the Balanced Income and Balanced Income Conservative Strategies offered through certain wrap fee programs.

ThomasPartners Strategies use both quantitative and qualitative techniques to identify attractive securities for equity investments. These include primarily foreign and domestic large-cap companies and companies with histories of annual dividend growth. ThomasPartners Strategies can also invest in mid- and small-cap companies. REITs and MLPs are also considered.

Particular attention is paid to a company's current dividend policy as well as its potential to increase its dividend in the future. The companies are then analyzed with respect to:

- Business quality;
- Returns on capital;
- Free cash flow generation and capital intensity;
- Balance sheet strength; and
- Valuation.

Lastly, a discounted cash flow analysis and/or other appropriate valuation techniques are used to develop intrinsic value estimates for the companies identified through the methods above. Companies that are deemed undervalued are recommended to the portfolio management team for inclusion in the portfolio. Portfolio decisions will also incorporate the proposed company's impact on the overall portfolio's dividend yield and income growth potential.

ThomasPartners Strategies' portfolio management team will allocate a portion of certain accounts to fixed income ETFs in its balanced strategies and may also allocate a portion of certain accounts to fixed income securities, including fixed income ETFs, for Direct Clients. For fixed income investments, ThomasPartners Strategies' portfolio management team uses a combination of top-down and sector research in their analysis of the fixed income markets. The macro, top-down analysis provides a framework and understanding of the current economic environment. The sector analysis seeks to identify the relative opportunities within fixed income. The fixed income sectors that are considered include U.S. Treasuries, government-sponsored enterprises, agencies, corporate and/or municipal bonds, high yield, bank loans, and other fixed income sectors deemed appropriate by ThomasPartners Strategies' portfolio management team.

For the fixed income portion of the strategies, the ThomasPartners Strategies portfolio management team may determine to use another CSIM portfolio management team that specializes in fixed income or a particular segment of the fixed income market to provide trading services and/or portfolio management for fixed income or that particular segment of the fixed income market.

Descriptions of the ThomasPartners Strategies are below:

*Dividend Growth.* The strategy invests in dividend-paying companies that have the ability to grow their dividends. As an equity offering, this strategy is designed to complement a broader portfolio. There are two versions of the strategy. ThomasPartners Dividend Growth Strategy K-1 Generating may have direct exposure to MLPs that can generate IRS Schedule K-1 tax forms. The other version, ThomasPartners

Dividend Growth Strategy Non-K-1 Generating will not invest in any security that can generate IRS Schedule K-1 tax forms.

*Balanced Income.* The strategy combines the dividend growth portfolio with fixed income investments and has a balanced portfolio's baseline allocation of 60% equities and 40% fixed income. The allocation between dividend stocks and fixed income may be adjusted from time to time and is determined by the ThomasPartners Strategies portfolio management team. Client accounts may drift from this allocation due to market conditions or client activity, but will be rebalanced from time to time.

*Balanced Income Conservative.* The strategy combines the dividend growth portfolio with fixed income investments and has a baseline of 40% equities and 60% fixed income. The allocation between dividend stocks and fixed income may be adjusted from time to time and is determined by the ThomasPartners Strategies portfolio management team. Client accounts may drift from this allocation due to market conditions or client activity, but will be rebalanced from time to time.

### **UMP Program Methods of Analysis and Investment Strategies**

The UMP Program includes UMP Wrap (a mutual fund and ETF wrap program) and UMP Custom (a unified managed account program). CSIM is the investment adviser for UMP Wrap and UMP Custom strategies. This is as a result of the acquisition of the assets of USAA Investment Services Company ("USAA ISCO") by an affiliate of CSIM (the "Acquisition") and the subsequent assignment of USAA ISCO's investment advisory agreements to Schwab, with Schwab becoming the wrap fee sponsor, and CSIM becoming the manager, of the UMP Program offered through the Managed Account Connection program.

UMP Wrap offers clients a portfolio of investments that may be composed of mutual funds, money market funds, and/or ETFs in a single account that is managed on a discretionary basis by CSIM. UMP Custom offers clients a portfolio of investments that may be composed of mutual funds, money market funds, ETFs, ADRs, and one or more investment strategies with underlying assets including, but not limited to, individual stocks and bonds (each a "Sub-strategy"). UMP Custom involves both CSIM managing assets on a discretionary basis and CSIM acting as the manager of managers, and other managers for the Sub-strategies providing model investment portfolios or research (each a "Sleeve Manager") to CSIM. Although CSIM will have all the trading responsibility for all of the Sub-strategies; it is possible that the Sleeve Manager(s) may have all of trading responsibility, and



sometimes CSIM and the Sleeve Manager(s) may allocate trading responsibility among themselves depending on the type of trading activity.

Certain Sleeve Managers for UMP Custom were selected by USAA ISCO prior to the Acquisition. If Schwab or CSIM had conducted a search for the Sleeve Managers and Sub-strategies available in the UMP Custom strategies, it is possible that other Sleeve Managers and Sub-strategies could have been chosen. USAA ISCO has evaluated each Sleeve Manager prior to the Acquisition and CSIM continues to monitor the Sleeve Managers and Sub-strategies on at least an annual basis. A Sleeve Manager may be terminated and replaced by CSIM and Schwab without prior notice to you.

UMP Program strategies are available with seven asset allocation models comprised of varying percentages, corresponding to risk tolerance levels including very aggressive, aggressive, moderately aggressive, moderate, moderately conservative, conservative, and 100% fixed income (“UMP Model Portfolios”). Descriptions of the UMP Model Portfolios offered in the UMP Program are below. Please note that although some UMP Model Portfolios are designed to minimize risk (and therefore offer diminished potential returns on your investment), all investments in securities involve a risk of loss, including the loss of all of the money you initially invest.

*100% Fixed-Income.* The strategy is for investors focused on current income who may have a low tolerance for fluctuations in value or risk to principal and who may have a short time horizon. Investments are only in fixed income and cash exposures.

*Conservative.* The strategy is for investors relatively more concerned with current income than with long-term capital appreciation who are sensitive to risk and fluctuations in value and who may have a short time horizon. Investments are primarily in fixed income assets with some equity exposure.

*Moderately Conservative.* The strategy is for investors concerned with modest capital appreciation who are willing to accept portfolio risk that involves fluctuations in value expected to be materially less than those of the overall stock market and who may have an intermediate time horizon. A majority of investments are in fixed income exposures but with a significant percentage invested in equity assets.

*Moderate.* The strategy is for investors concerned with moderate levels of capital appreciation who are willing to accept a moderate level of risk that may involve fluctuations in value that are expected to be less volatile than those of the overall stock market and who may have an intermediate to long-term time horizon. Investments are in a roughly proportionate mix of fixed income and equity assets.

*Moderately Aggressive.* The strategy is for investors concerned with seeking meaningful levels of capital appreciation who are willing to accept a moderate level of risk that may involve fluctuations in value that are expected to be less volatile than those of the overall stock market and who may have an intermediate to long-term time horizon. Investments are in both equity and fixed income assets, with a majority in equity.

*Aggressive.* The strategy is for investors concerned with seeking high levels of capital appreciation who are willing to accept significant fluctuations in value that are expected to be slightly less than the volatility of the overall stock market and who may have a long-term time horizon. Investments are primarily in equity assets with some fixed income exposure.

*Very Aggressive.* The strategy is for investors concerned with aggressively seeking high levels of capital appreciation who are willing to accept fluctuations in value that are similar to being fully invested in the overall stock market and who may have a long-term time horizon. Nearly all investments are in equity assets.

Each different strategic allocation associated with a UMP Model Portfolio is designed to accommodate a variety of investment goals, time horizons, and risk tolerances. The 100% Fixed-Income UMP Model Portfolios is available only in UMP Custom, and within each UMP Model Portfolio, the types of assets and services offered will vary between UMP Wrap accounts and UMP Custom accounts. Each UMP Model Portfolio contains a strategic asset allocation, as well as specific investments to fill the asset allocation; however, each type of UMP Program account varies in the types of investments that can be used to implement the model asset allocation. CSIM and Schwab may agree to change the strategic asset allocation percentages of the UMP Model Portfolios without your approval.

Each UMP Program account will be separately managed by CSIM without regard to other UMP Program accounts and assets that the client may hold, either through the UMP Program or outside of the UMP Program. CSIM manages each UMP Program account according to the offering selected (Wrap or Custom) and the specific account type and UMP Model Portfolio selected. CSIM does not look across all strategies that a client may hold in an attempt to coordinate a client’s UMP Program accounts or manage them collectively for a different strategy. Therefore, CSIM can provide no assurance regarding the volatility of the “total package” of UMP Program accounts held by a client.

Actual UMP Program account holdings and performance will differ from UMP Model Portfolio holdings and performance based on a variety of factors,

including but not limited to, the length of time the account has been under CSIM's management and prior to that USAA ISCO's management, account size, and individual account restrictions. CSIM will determine the cash allocation of a UMP Program account in our sole discretion.

Some of the UMP Model Portfolios are intended for use with taxable accounts, while others are intended for use with tax-deferred accounts. Certain investment strategies in the UMP Program offer UMP Model Portfolios that invest the fixed income allocation in taxable bonds, investing primarily in bonds whose interest income is subject to federal and state taxes, including but not limited to corporate, government, agency, taxable municipals, and certificates of deposit ("CDs"). Other investment strategies offer UMP Model Portfolios that invest primarily in bonds whose interest income is exempt from federal taxes as well as potentially state and local taxes, including but not limited to general obligation and revenue bonds. In certain circumstances, tax-exempt bond mutual funds and ETFs can invest in taxable municipal bonds which will create taxable income. In addition, any capital gains realized are considered taxable income. The tax-exempt UMP Model Portfolios also invest in taxable equity investments in the same manner as the taxable UMP Model Portfolios. Therefore, a tax-exempt investment strategy may still be subject to taxation.

UMP Wrap accounts are available in four different types: USAA Mutual Fund Wrap Program accounts, Market Place Mutual Fund Wrap Program accounts, ETF Wrap Program accounts, and Blend Wrap Program accounts. The UMP Wrap accounts generally provide the same range of investment styles; however, each type of account varies in the types of investments that can be used to implement the model asset allocation. Specifically, USAA Mutual Fund Wrap Program accounts are comprised of mutual funds, with both Victory mutual funds advised by Victory Capital Management Inc. ("Victory Capital"), which is not affiliated with USAA ISCO, CSIM or Schwab, and non-Victory mutual funds, which may include CSIM managed mutual funds.

Market Place Mutual Fund Wrap Program accounts are comprised of mutual funds, including Victory mutual funds and CSIM managed mutual funds. The ETF Wrap Program accounts are comprised of ETFs including CSIM managed ETFs and VictoryShares ETFs that are advised by Victory Income Investors, which is not affiliated with USAA ISCO, CSIM or Schwab. The Blend Wrap Program accounts are comprised of mutual funds and/or ETFs, including Victory Registered Funds and CSIM managed Registered Funds. CSIM may allocate exposure to real estate-related investments and Treasury Inflation Protected Securities in both UMP Wrap and UMP Custom accounts.

Without limitation, UMP Model Portfolios available in UMP Wrap may include one or more of the following securities: ETFs and mutual funds, which include Victory mutual funds, VictoryShares ETFs, CSIM managed Registered Funds, and ETFs and mutual funds that may concentrate exposure to REITs, commodities, or hedging strategies.

Without limitation, UMP Model Portfolios available in UMP Custom may include one or more of the following securities: individual stocks, bonds, mutual funds (including Victory mutual funds, CSIM managed mutual funds, and mutual funds that may concentrate exposure to REITs, commodities, or hedging strategies), CDs, ETFs (including VictoryShares ETFs, CSIM managed ETFs, and ETFs that may concentrate exposure in REITs, commodities, or hedging strategies), and/or ADRs.

CSIM may restrict or expand the types of securities in which the UMP Program invests at its sole discretion, and without prior notice to you. For UMP Wrap and UMP Custom accounts, CSIM will allocate the cash portion of an account to a money market fund managed by CSIM.

CSIM will manage your UMP Program account using the strategic allocation associated with your selected UMP Model Portfolio. Although the UMP Program is not designed for short-term changes in the market, CSIM may adjust the mix of asset classes (tactical shift) based on shorter-term financial considerations. CSIM can make changes to the strategic allocation of your UMP Model Portfolio without prior notification.

In order to take advantage of market opportunities, and to attempt to reduce the volatility and risk associated with a static asset allocation model, CSIM may make tactical adjustments to your strategic allocation that CSIM believes are appropriate for your risk tolerance and CSIM's view of current market conditions and opportunities. Your "Current Tactical Allocation" is your long-term strategic allocation modified to reflect CSIM's view of current market conditions and opportunities. CSIM may adjust your Current Tactical Allocation periodically when CSIM believes there is a material change in the cyclical direction of the market that presents investment opportunities or raises potential risks. CSIM also may periodically make adjustments to your asset allocation as needed in the event your UMP Program account experiences what CSIM deems to be a material drift away from the target strategic allocation. The number of reallocations that are made will vary from year to year based on CSIM's views of market conditions and the overall market cycle. Additionally, CSIM may be limited in CSIM's ability to make asset allocation adjustments due to frequent trading restrictions or redemption fee policies of the underlying mutual fund companies.

When a reallocation has been made in your UMP Program account, the reallocation will be reflected in your periodic statements.

CSIM manages the asset allocation strategies for the UMP Program accounts by actively monitoring certain factors that CSIM believes influence the overall market cycles. These factors include, but are not limited to, economic factors such as growth rates and inflation rates, the geopolitical environment and global monetary and fiscal policies, and securities market factors such as corporate profits, valuation levels, yields of short-term and long-term bonds, and technical conditions.

### **Wasmer Schroeder Strategies Methods of Analysis and Investment Strategies**

The Wasmer Schroeder Strategies offer portfolios of fixed income securities with a variety of structures, attributes and characteristics such as, but not limited to, the range of maturities held and the taxability of the income generated by various issues held. Some portfolios may also offer exposure to income earning equity securities. Portfolios within a given strategy may not hold identical securities but they generally share common key attributes and are managed consistent with the strategy-specific investment mandate as more fully described in each client's investment management agreement or investment policy statement. CSIM uses the following methods of analysis in formulating its investment advice and/or managing Wasmer Schroeder Strategies client assets:

*Fundamental Analysis.* CSIM attempts to measure the intrinsic value of a security by looking at economic and financial factors including the overall economy, industry conditions, and the financial condition and management of the company or issuer to determine if the security is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the issuer.

*Cyclical Analysis.* Cyclical analysis involves looking at overall macro trends of state, local, national and global economic trends. This includes, but is not limited to, unemployment rates, industrial production, wage growth and other factors. Cyclical trends in the economy are then applied to security selection, yield curve positioning and credit quality decisions.

*Quantitative Analysis.* CSIM employs a conservative credit approach that emphasizes the investment grade quality, essential purpose sectors in the municipal bond market. CSIM reviews each purchase candidate

utilizing various industry specific credit metrics and statistics. These include analyzing relevant economic, demographic, and employment data as well as issuer financial position and debt burden. These credit metrics are evaluated using CSIM's approved credit criteria as a framework. With each corporate issuer CSIM evaluates a range of metrics ranging from broad-based data to ratios that have industry specific relevance. These metrics often reveal areas that need further examination. This spectrum of quantitative analysis provides an identifiable risk assessment.

*Qualitative Analysis.* CSIM subjectively evaluates non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement and incorporates this analysis into CSIM's investment decision process based on that data. A risk in using qualitative analysis is that CSIM's subjective judgment may prove incorrect.

*Positive Impact Analysis.* For those Wasmer Schroeder Strategies that have positive impact parameters, after assessing and determining that potential investment credit risk and worthiness is appropriate for a given strategy, CSIM takes an additional step and looks at the bond's stated use of proceeds. CSIM looks at those bonds' proceeds that focus on supporting issues such as education, infrastructure, environmental protection, poverty eradication, and affordable housing. CSIM focuses on key proceeds-based questions to identify bonds that exhibit a positive impact on society and the environment, including whether (i) there are clearly defined and quantifiable community and/or environmental benefits expected from the financing, (ii) the mandate or objectives of the lending program are in line with social, environmental or community benefits, and (iii) for municipal bonds, the proceeds are being used to create, enhance, sustain or improve upon an essential government function.

*Risks for all forms of analysis.* CSIM's securities analysis methods rely on the assumption that the issuers whose securities CSIM purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While CSIM is alert to indications that data may be incorrect, there is always a risk that CSIM's analysis may be compromised by inaccurate or misleading information.

CSIM focuses on opportunities within a security's credit profile and its structural aspects. Portfolios are structured primarily for maximum income and capital preservation. Investment decisions are based on the client's parameters and current market conditions. Overall planning and long-term strategy are determined through the CSIM governance committee

structure with input from portfolio management. Execution of the investment strategy is conducted by the assigned Portfolio Manager and each trade is reviewed by a designated member of senior portfolio management.

CSIM manages portfolios of fixed income securities with a variety of structures, attributes and characteristics such as, but not limited to, the range of maturities held and the taxability of the income generated by various issues held. Portfolios within a given strategy may not hold identical securities but they generally share common key attributes and are managed consistent with the strategy-specific investment mandate as more fully described in each client's Addendum to Agreements or Investment Policy Statement.

The following is a brief overview of CSIM's Wasmer Schroeder Strategies. For the equity portion of the strategies, the Wasmer Schroeder Strategies portfolio management team may determine to use another portfolio management team that specializes in equity trading, equity portfolio management or particular segments of the equity market. CSIM also manages portfolios of fixed income securities under custom investment mandates for certain clients, including Wasmer Schroeder Strategies that are no longer offered broadly.

*Short Tax Exempt.* The strategy contains predominantly investment grade U.S. tax exempt municipal fixed income securities which, in the aggregate, exhibit a short-term ( $\leq 3$  years) overall duration. The strategy is managed primarily for capital preservation, liquidity and tax exempt income.

*Intermediate Tax Exempt.* The strategy contains predominantly investment grade U.S. tax exempt municipal fixed income securities which, in the aggregate, exhibit an intermediate (3 – 6 year) overall duration. The strategy is managed primarily to maximize tax exempt income and for capital preservation.

*Positive Impact Tax Exempt.* The strategy contains predominantly investment grade U.S. municipal fixed income securities which, in the aggregate, exhibit an intermediate (3 – 6 year) overall duration. In addition, the strategy invests in tax exempt securities which meet positive impact parameters. The strategy is managed primarily to maximize tax exempt income and for capital preservation.

*Short Tax Exempt Credit.* The strategy contains both investment grade and below investment grade U.S. tax exempt municipal fixed income securities which, in the aggregate, exhibit a short term ( $\leq 3$  year) overall duration. The strategy maintains significant exposure to investment grade issuers, but has the ability to maintain exposure to the entire credit curve, including below investment grade and non-rated issuers.

The strategy seeks to add value through CSIM's core competencies of credit research, surveillance, and assessment of relative value.

*Intermediate Tax Exempt Credit.* The strategy contains both investment grade and below investment grade U.S. tax exempt municipal fixed income securities which, in the aggregate, exhibit an intermediate (3 – 6 year) overall duration. The strategy maintains significant exposure to investment grade issuers, but has the ability to maintain exposure to the entire credit curve, including below investment grade and non-rated issuers. The strategy seeks to maximize tax exempt income by fully utilizing the initial 15 years of the yield curve and the entire municipal credit curve. The strategy seeks to add value through CSIM's core competencies of credit research, surveillance, and assessment of relative value.

*Intermediate Strategic Tax Exempt.* The strategy contains primarily investment grade U.S. tax exempt municipal fixed income securities which, in the aggregate exhibit an intermediate (3 – 6 year) overall duration. The strategy seeks to add value through CSIM's core competencies of credit research, surveillance, and assessment of relative value.

*Strategic Tax Exempt.* The strategy contains primarily investment grade U.S. tax exempt municipal fixed income securities. The strategy does not utilize a predetermined duration restriction and may exhibit sensitivity to changes in long-term tax exempt interest rates. The strategy seeks to add value through CSIM's core competencies of credit research, surveillance, and assessment of relative value.

*Long Tax Exempt.* The strategy contains predominantly investment grade U.S. tax exempt municipal fixed income securities and focuses on maturities predominantly in the 10 to 30-year area of the yield curve. Call protection is significant as this strategy focuses on locking in long-term tax exempt yields. Portfolios consist of predominantly AA and AAA securities to minimize long-term credit risk. A minor portion of the portfolio may be allocated to bonds with maturities of less than 10 years if market conditions warrant.

*Long Tax Exempt Credit.* The strategy contains both investment grade and below investment grade U.S. tax exempt municipal fixed income securities. The strategy maintains significant exposure to investment grade issuers, but has the ability to maintain exposure to the entire credit curve, including below investment grade and non-rated issuers. The strategy seeks to maximize tax exempt income by fully utilizing the entire municipal yield and credit curves. The strategy seeks to add value through CSIM's core competencies of credit research, surveillance, and assessment of relative value.

*Tax Exempt Variable Rate Demand Notes.* The strategy contains primarily variable rate demand municipal securities with daily or weekly reset periods. The strategy focuses on capital preservation and liquidity and invests in higher credit quality bonds with a majority of holdings rated AA or higher.

*Ultra Short Duration Taxable Bond.* The strategy contains predominantly investment grade corporate bonds, U.S. government agency debt and taxable municipal bonds which, in the aggregate, exhibit an ultra-short-term overall duration and a maximum maturity of 24 months. The strategy is managed primarily for capital preservation, liquidity and taxable income in excess of cash and cash alternatives.

*Short Duration Bond.* The strategy contains predominantly investment grade corporate bonds, U.S. government agency debt and taxable municipal bonds which, in the aggregate, exhibit a short-term ( $\leq 3$  years) overall duration. The strategy is managed primarily for capital preservation, liquidity and taxable income in excess of cash and cash alternatives.

*Intermediate Bond.* The strategy contains predominantly investment grade corporate bonds, U.S. government agency debt and taxable municipal bonds which in the aggregate exhibit an intermediate term (3 – 5 years) overall duration. Mortgage-backed securities and asset-backed securities are also utilized. The strategy is managed primarily to maximize income and for capital preservation.

*Intermediate Investment Grade (IG) Credit.* The strategy contains predominantly investment grade corporate bonds and taxable municipal bonds, which in the aggregate exhibit an intermediate term (3 – 5 years) overall duration. The strategy is managed primarily to maximize income and for capital preservation.

*Core Bond.* The strategy is an intermediate duration style and contains predominantly investment grade corporate bonds, taxable municipal bonds, government agency bonds and mortgage-backed securities. The strategy is managed primarily to maximize income and for capital preservation.

*Core Investment Grade (IG) Credit.* The strategy is an intermediate duration style managed primarily for high current income and capital preservation. The strategy contains predominantly investment-grade corporate bonds and taxable municipal bonds.

*Multi-Sector Income.* The strategy seeks to deliver a consistent, diversified stream of income across multiple asset classes. The strategy derives its income primarily from investments in higher yielding common stocks, preferred securities, and corporate and taxable municipal bonds. Below investment grade securities can be held. The strategy can also hold other securities including, but not limited to, mortgage and asset-backed securities and U.S. Treasury securities.

*Core Plus Bond.* The strategy is an intermediate duration style managed primarily for high current income and capital preservation. The strategy contains a mix of investment and non-investment grade corporate bonds and taxable municipal bonds. The strategy can also hold securities across multiple asset classes including, but not limited to, preferred securities, mortgage and asset-backed securities and U.S. Treasury securities. Securities included in portfolios can be secured, senior or subordinated in structure depending on the market opportunity. All securities are denominated in U.S. Dollars and can be strategic and/or tactical in nature.

*Positive Impact Bond.* The strategy contains predominantly investment grade U.S. corporate bonds, U.S. government agency debt, supranational issuers and taxable municipal bonds which in the aggregate exhibit an intermediate term (3 – 5 years) overall duration. Mortgage-backed and asset-backed securities are also utilized. In addition, the strategy invests in taxable securities which meet positive impact parameters. The strategy is managed primarily to maximize income and capital preservation.

*Municipal Bond Ladders.* The strategies contain predominantly investment grade U.S. tax exempt municipal fixed income securities that target specific maturity years across pre-defined ranges of the yield curve. As bonds mature or roll out of the pre-defined target ranges, the proceeds are reinvested back into the longer end of the ladder range. The strategy is managed primarily to maximize tax exempt income and for capital preservation.

*California Municipal Bond Ladders.* The strategies contain predominantly investment grade U.S. tax exempt municipal fixed income securities issued within the State of California that target specific maturity years across pre-defined ranges of the yield curve. As bonds mature or roll out of the pre-defined target ranges, the proceeds are reinvested back into the longer end of the ladder range. The strategy is managed primarily to maximize tax exempt income and for capital preservation.

*Taxable Bond Ladders.* The strategies contain predominantly investment grade U.S. taxable fixed income securities that target specific maturity years across pre-defined ranges of the yield curve. As bonds mature or roll out of the pre-defined target ranges, the proceeds are reinvested back into the longer end of the ladder range. The strategy is managed primarily to maximize income and for capital preservation.

*U.S. Treasury Bond Ladders.* The strategies contain U.S. Treasury securities that target specific maturities across pre-defined ranges of the yield curve. As securities mature or roll out each quarter, the proceeds are typically reinvested on the longer end of

the ladder range. The strategy invests in U.S. Treasury securities, which are backed by the full faith and credit of the U.S. government. The strategy is managed primarily to generate current income and stability of capital.

### **Windhaven Strategies Methods of Analysis and Investment Strategies**

For the Windhaven Strategies, CSIM utilizes a proprietary process and model to help guide investment decisions and seeks to manage portfolio risk. The investment approach is the result of extensive independent research into the economic, fundamental, and behavioral factors that impact the global capital markets. The strategies are broadly diversified across asset classes. Understanding and modeling risk is a research priority. The Windhaven Strategies portfolio management team believes it is important to look at both returns and the risk taken to achieve those returns. Assets in the Windhaven Strategies are primarily invested in ETFs.

The Windhaven Strategies portfolios seek capital appreciation over full market cycles while generally maintaining global diversification. Each strategy seeks to achieve its investment objective by obtaining exposure to a wide variety of asset classes, including but not limited to U.S. and international stocks, fixed income securities, and hard assets. The Windhaven Strategies primarily use ETFs to gain exposure to desired allocations. Each strategy is dynamically managed, striving to take advantage of global capital market opportunities while focusing on downside risk management by changing allocations in response to the Windhaven Strategies' portfolio management and research teams' views and market conditions.

To construct the Windhaven Strategies, CSIM employs a proprietary quantitative model combined with macroeconomic research and a disciplined review process to guide investment decisions and manage risk.

Descriptions of the Windhaven Strategies are below:

*Diversified Conservative.* The strategy seeks current income and low to moderate growth by investing in a portfolio of global equity, debt, and/or hard assets. Asset class mix may differ considerably over time due to tactical investment decisions, but the primary emphasis of the strategy is on fixed income securities. Investments are typically made using ETFs. The strategy may be appropriate for investors with a low to moderate tolerance for risk.

*Diversified Growth.* The strategy seeks growth of capital with some current income by investing in a portfolio of global equity, debt, and/or hard assets. Asset class mix may differ considerably over time due to tactical investment decisions. Investments are typically made using ETFs. The strategy may be

appropriate for investors with a time horizon of greater than five years and who have a moderate or greater tolerance for risk.

*Diversified Aggressive.* The strategy seeks growth of capital by investing in a portfolio of global equity, debt, and/or hard assets. Asset class mix may differ considerably over time due to tactical investment decisions, but the primary emphasis of the strategy is on equity securities. Investments are typically made using ETFs. The strategy may be appropriate for investors with a time horizon of greater than ten years and who have a substantial tolerance for risk.

### **Risk of Loss**

There are inherent risks to investing in strategies managed by CSIM. The following list of risks does not purport to be a complete enumeration or explanation of the risks involved in those strategies. As the strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

With respect to the Registered Funds CSIM manages, the risks associated with their investment strategies are described in their respective prospectuses and statements of additional information. Shareholders of the Registered Funds should carefully read the prospectuses and statements of additional information.

### **Investment Risks**

*Investment Risks.* Investing in securities is subject to a number of risks, any of which could cause a client to lose money and clients should be prepared to bear the risk of such loss. Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

*Management Risks.* CSIM applies its own investment techniques and risk analyses in making investment decisions or recommendations for its clients, but there can be no guarantee that they will produce the desired results. In addition, there is no guarantee that a strategy based on historical information will produce the desired results in the future and, if market dynamics change, the effectiveness of the strategy may be limited. Each strategy runs the risk that investment techniques will fail to produce the desired results. There also can be no assurance that all of the key personnel will continue to be associated with the firm for any length of time.

*Market Risks.* Financial markets rise and fall in response to a variety of factors, sometimes rapidly and unpredictably. Markets may be impacted by economic, political, regulatory and other conditions, including economic sanctions and other government actions. In addition, the occurrence of global

events, such as war, terrorism, environmental disasters, natural disasters or epidemics, may also negatively affect the financial markets. These events could reduce consumer demand or economic output; result in market closures, changes in interest rates, inflation/deflation, travel restrictions or quarantines; and significantly adversely impact the economy. Governmental and quasi-governmental authorities and regulators throughout the world have in the past often responded to serious economic disruptions with a variety of significant fiscal and monetary policy changes which could have an unexpected impact on financial markets and the fund's investments. As with any investment whose performance is tied to these markets, the value of an investment in a client account will fluctuate, which means that an investor could lose money over short or long periods.

*Asset Allocation Risks.* Asset allocation risk is the risk that the allocation of a client's assets among the various sub-advisers, underlying pooled investment vehicles, asset classes and/or market segments will cause the client's account to underperform other accounts with a similar investment objective but different allocations. Asset allocation decisions may result in more portfolio concentration in a certain asset class or classes, which could reduce overall return if the concentrated assets underperform expectations. The more aggressive the strategy selected, the more likely the portfolio will contain larger weights in riskier asset classes, such as equities. The asset classes in which the strategies seek investment exposure can perform differently from each other at any given time (as well as over the long term), so the strategy will be affected by its allocation among the various asset classes. Depending on market conditions there may be times where diversified strategies perform worse than less diversified strategies.

*Inflation/Deflation Risks.* Client accounts may be subject to inflation and deflation risk. Inflation risk is the risk that the present value of assets or income from a client's investments will be less in the future as inflation decreases the value of money. As inflation increases, the present value of a client's assets can decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of a client's assets.

*Liquidity Risks.* Liquidity risk exists when particular investments may be difficult to purchase, sell or value, especially during stressed market conditions. The market for certain investments may become illiquid due to specific adverse changes in the conditions of a particular issuer or under adverse market or economic conditions independent of the issuer. In addition,

limited dealer inventories of certain securities could potentially lead to decreased liquidity. In such cases, a client account with limitations on investments in illiquid securities and the difficulty in readily purchasing and selling such securities at favorable times or prices, may decline in value, experience lower returns and/or be unable to achieve its desired level of exposure to a certain issuer or sector. Further, transactions in illiquid securities may entail transaction costs that are higher than those for transactions in liquid securities. Liquidity risk also includes the risk that market conditions or large redemptions may impact the ability of a client account to meet redemption requests. In order to meet such redemption requests, a client account may be forced to sell securities at inopportune times or prices.

*Frequent Trading Risks.* CSIM's recommendations may result in frequent trading in certain client accounts. To the extent CSIM engages in frequent trading, those client accounts portfolio turnover rate and transaction costs will rise, which may lower performance and may have tax consequences.

*Model Risks.* Each of the SIP Program, SMP Program, UMP Program and Windhaven Strategies uses quantitative analyses and/or models. Any design flaws, faulty assumptions, other limitations, or data inaccuracies in the analyses and/or models could affect CSIM's ability to implement strategies. By necessity, these tools make simplifying assumptions that may limit their effectiveness. Models that appear to explain prior market data can fail to predict future market events. Further, the data used in models may be inaccurate, and/or it may not include the most current information available. When the quantitative analyses and models rely on inaccurate data, incorrect or incomplete algorithms, or inaccurate assumptions, any decisions or investments made in reliance thereon expose a client account to additional risks.

*Algorithm Risks.* There are limitations inherent in the use of a SIP Algorithm to manage SIP Program accounts; for instance, the Rebalancing Algorithms are designed to manage SIP Program accounts according to the asset allocation selected for that account and is not designed to actively manage asset allocations based on short-term market fluctuations. The SII Algorithm is designed to allow eligible clients to make a series of recurring withdrawals for a given period of time, but the SII Algorithm is not designed to ensure the duration of those recurring withdrawals due to factors beyond Schwab's control, including market changes and ad hoc client-initiated withdrawals. The Rebalancing Algorithms are also not designed to consider certain factors such as short-term asset class volatility or individual tax circumstances such as capital gains taxes; rather, its functions consist of identifying opportunities for tax-loss harvesting and

rebalancing and initiating buy/sell orders accordingly. Investment advisory personnel of CSIM oversee the Rebalancing Algorithms but do not monitor how the Rebalancing Algorithms impact each individual SIP Program account on a daily basis.

There is also a risk that the SIP Algorithms and related software used in the SIP Program for strategy selection, tax-loss harvesting and rebalancing, recurring withdrawals, and related functions may not perform within intended parameters, which may result in a recommendation of a portfolio that may be more aggressive or conservative than necessary, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

*Foreign Investment Risks.* Investments in securities of foreign issuers involve certain risks that may be greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory and other conditions; changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting and legal standards and practices; differing securities market structures; and higher transaction costs. In certain countries, legal remedies available to investors may be more limited than those available with respect to investments in the U.S. These risks may negatively impact the value or liquidity of a client account's investments and could impair that client account's ability to meet its investment objective or invest in accordance with its investment strategy. In addition, investments in foreign securities may be subject to economic sanctions or other government restrictions. There also is the risk that the cost of buying, selling, and holding foreign securities, including brokerage, tax, and custody costs, may be higher than those involved in domestic transactions. The securities of some foreign companies may be less liquid and, at times, more volatile than securities of comparable U.S. companies. A client account invested in foreign securities may also experience more rapid or extreme changes in value as compared to a client account that invests solely in securities of U.S. companies because the securities markets of many foreign countries are relatively small, with a limited number of companies representing a small number of industries. To the extent a client account's investments in a single country or a limited number of countries represent a large percentage of the client account's assets, the client account's performance may be adversely affected by the economic, political, regulatory and social conditions in those countries, and a client account's value may be more volatile than the value of a client account that is geographically diversified. Foreign securities also include ADRs, Global Depository Receipts ("GDRs") and

European Depository Receipts ("EDRs"), which may be less liquid than the underlying shares in their primary trading market and GDRs, many of which are issued by companies in emerging markets, may be more volatile.

*Emerging Markets Risks.* The risks of foreign investments apply to, and may be heightened in connection with, investments in emerging market countries or securities of issuers that conduct their business in emerging markets. Emerging market countries may be more likely to experience political turmoil or rapid changes in market or economic conditions than more developed countries. Emerging market countries often have less uniformity in accounting and reporting requirements and greater risk associated with the custody of securities. It is sometimes difficult to obtain and enforce court judgments in such countries. There is often a greater potential for nationalization, expropriation, confiscatory taxation, government regulation, social instability or diplomatic developments (including war) in emerging market countries, which could adversely affect the economies of, or investments in securities of issuers located in, such countries. In addition, emerging markets are substantially smaller than developed markets, and the financial stability of issuers (including governments) in emerging market countries may be more precarious than in developed countries. As a result, there will tend to be an increased risk of illiquidity and price volatility associated with a client account's investments in emerging market countries which may be magnified by currency fluctuations relative to the U.S. Dollar, and, at times, it may be difficult to value such investments. The risks associated with investing in securities, ETFs, or mutual funds that hold foreign or emerging markets generally are magnified in frontier markets, also known as "next emerging" markets. Some frontier markets may operate in politically unstable regions of the world and may be subject to additional geopolitical/disruption-of-markets risks.

*Currency Risks.* A client account's investments in securities denominated in, receiving revenues in, foreign currencies, and/or that have exposure to foreign currencies (e.g. ADRs, GDRs and EDRs) will subject the account to the risk that those currencies will decline in value relative to the U.S. dollar, adversely affecting the investment. Currency exchange rates may fluctuate in response to factors extrinsic to that country's economy, which makes the forecasting of currency market movements extremely difficult. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates; intervention (or failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund; or by the imposition of currency controls or other political developments in the U.S. or abroad.



*Custodian Risks.* Schwab, or a broker-dealer custodian chosen by an SMA Strategies client, is a Securities Investor Protection Corporation (“SIPC”) member brokerage firm and maintains SIPC protection. SIPC offers protection of up to \$500,000, including a \$250,000 limit for cash, if a member brokerage firm fails. SIPC covers most securities such as stocks, bonds, ETFs, and mutual funds, but does not protect against market loss.

*Counterparty Risks.* There may be a risk of an executing broker failing to deliver securities, especially due to the large volume of trade away transactions with broker-dealers other than the program sponsor or client-selected broker-dealer/custodian. This may result in a loss to the client. Where applicable, CSIM will attempt to mitigate trading counterparty risk through its broker selection program described in “Brokerage Practices.”

*Commodities Risks.* Commodities involve unique risks that may be distinct from those that affect stocks and bonds, including, but not limited to, worldwide supply and demand factors, weather conditions, currency movements, and international government policies regarding commodity reserves and choice of currency for commodity pricing. Commodities investments may also involve unique risks inherent to investing in derivatives, which may include basis, roll, liquidity, and regulatory risks. A detailed explanation of the risks is available in the prospectus of the respective commodity fund. Commodity pools may be subject to different regulatory requirements than traditional funds governed by the Investment Company Act of 1940, as amended (the “1940 Act”).

*Hard Assets Risks.* The production and distribution of hard assets, such as precious metals, oil and gas, real estate, and/or agricultural commodities, may be affected by geopolitical and environmental factors and are cyclical in nature. During periods of economic or financial instability, hard asset securities and other instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. Hard asset securities, hard asset companies, and other instruments may also experience greater price fluctuations than the relevant hard asset. Therefore, the return on hard assets securities can deviate from that of the hard asset itself.

*Real Estate Risks.* Real estate – related investments (and the ETFs or mutual funds that hold them) may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates and social and economic trends.

*Geographic Concentration Risks.* Portfolios concentrated in any one geographic region can be more susceptible to that region’s political and economic

risk. For example, a portfolio that is concentrated in the U.S. will be more susceptible to the U.S.’ political and economic risk, as compared to a more globally diversified portfolio.

*Operational Risks.* Client accounts are subject to operational risks arising from various factors, including but not limited to, processing errors, communication failures, human errors, inadequate or failed internal or external processes, fraud by employees or other parties, limitations or failure in systems and technology, changes in personnel and errors caused by third-party service providers. Client accounts which are managed by investment personnel across multiple offices are subject to operational risks due to different systems and technology, potential communication failures and personnel changes. CSIM seeks to reduce these operational risks through controls and procedures believed to be reasonably designed to address these risks. However, these controls and procedures cannot address every possible risk and may not fully mitigate the risks that they are intended to address.

*Cybersecurity Risks.* Information security risks for financial institutions are increasing, in part because of the use of the internet and mobile technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, activists, hackers and other external parties, including foreign state actors. Our systems and those of other financial institutions have been and will continue to be the target of cyber attacks, malicious code, computer viruses, ransomware, and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential client information), account takeovers, and the unavailability of service or other events. We seek to reduce these risks through controls and procedures believed to be reasonably designed to address these risks. Despite our efforts to ensure the integrity of our systems, we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, and security breaches could still occur that would halt or impair our ability to provide advisory services. System interruptions, errors or downtime can result from a variety of causes, including changes in client use patterns, technological failure, changes to our systems, linkages with third-party systems and power failures and can have a significant impact on our business and operations. It could take an extended period of time to restore full functionality to our technology or other operating systems in the event of an unforeseen occurrence, which could affect our ability to manage client assets and deliver advisory services. We will respond to breaches with appropriate resources in an effort to contain and remediate the cause of the breach and restore operations.

*System Outages Risks.* System interruptions, errors or downtime can result from a variety of causes, including changes in client use patterns, technological failure, changes to the systems, linkages with third-party systems and power failures and can have a significant impact on CSIM's business and operations. It could take an extended period of time to restore full functionality to the technology or other operating systems in the event of an unforeseen occurrence, which could affect CSIM's ability to manage client assets and deliver advisory services.

## **Equity Securities Investment Risks**

*Equity Risks.* The prices of equity securities, including the value of ETFs or mutual funds that invest in them, REITs, and MLPs rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. In addition, markets tend to move in cycles, which may cause stock prices to fall over short or extended periods of time.

*Market Capitalization Risks.* Securities issued by companies of different market capitalizations tend to go in and out of favor based on market and economic conditions. In addition, there may be less trading volume in securities issued by mid- and small-cap companies than those issued by larger companies and, as a result, trading volatility may have a greater impact on the value of securities of mid- and small-cap companies. Securities issued by large-cap companies, on the other hand, may not be able to attain the high growth rates of some mid- and small-cap companies. During a period when securities of a particular market capitalization fall behind other types of investments a client account's performance could be impacted.

*Large-Cap Company Risks.* Large-cap companies are generally more mature than smaller companies. They also may have fewer new market opportunities for their products or services, may focus resources on maintaining their market share, and may be unable to respond quickly to new competitive challenges. As a result, the securities issued by these companies may not be able to reach the same levels of growth as the securities issued by small- or mid-cap companies.

*Mid-Cap Company Risks.* Mid-cap companies may be more vulnerable to adverse business or economic events than larger, more established companies and their securities may be riskier than those issued by large-cap companies. The value of securities issued by mid-cap companies may be based in substantial part on future expectations rather

than current achievements and their prices may move sharply, especially during market upturns and downturns.

*Small-Cap Company Risks.* Small-cap companies may be more vulnerable to adverse business or economic events than larger, more established companies, and their securities may be riskier than those issued by larger companies. The value of securities issued by small-cap companies may be based in substantial part on future expectations rather than current achievements and their prices may move sharply, especially during market upturns and downturns. In addition, small-cap companies may have limited financial resources, management experience, product lines and markets, and their securities may trade less frequently and in more limited volumes than the securities of larger companies. Further, small-cap companies may have less publicly available information and such information may be inaccurate or incomplete.

*REITs Risks.* Investments in REITs will be subject to the risks associated with the direct ownership of real estate, including fluctuations in the value of underlying properties, defaults by borrowers or tenants, changes in interest rates and risks related to general or local economic conditions. REITs are also subject to certain additional risks, for example, REITs are dependent upon specialized management skills and cash flows, and may have their investments in relatively few properties, a small geographic area or a single property type. Failure of a company to qualify as a REIT under federal tax law may have adverse consequences on a client account. In addition, REITs have their own expenses, and a client account will bear a proportionate share of those expenses.

*Risks of Dividend Cuts.* Companies may cut their dividends causing investors to sell the stock and the price to fall.

*MLP Risks.* MLPs are limited partnerships that are publicly traded and which have the tax benefits of a limited partnership. Investments in MLP securities (units) involve risks that differ from an investment in common stock. Holders of the units of MLPs have more limited control and limited rights to vote on matters affecting the partnership. For example, unit holders may not elect the general partner or the directors of the general partner, and they have limited ability to remove a MLP's general partner. MLPs may issue additional common units without unit holder approval, which would dilute existing unit holders. In addition, conflicts of interest may exist between common unit holders, subordinated unit holders, and the general partner of a MLP, including a conflict arising as a result of incentive distribution payments. As an income producing investment, MLPs could be affected by increases in interest rates and inflation. There are also certain tax and related risks associated with an investment in units

of MLPs, including that MLPs may convert to a C-Corporation. This conversion could cause a cut in distributions as well as an adverse tax event for long-time owners of the MLP.

*Large Investment Risks.* CSIM clients may collectively account for a large portion of the assets in certain securities, MLPs, ETFs, or REITs. A decision by CSIM to buy or sell for its clients' accounts some or all of a particular security, MLP, ETF, or REIT where clients hold a significant portion of such security, MLP, ETF, or REIT may negatively impact the value of that security.

### **Pooled Investment Vehicle Risks**

*ETF Risks.* ETFs in which certain strategies may invest involve certain inherent risks generally associated with investments in a portfolio of underlying securities, including the risk that the general level of underlying security prices may decline, thereby adversely affecting the value of each unit of the ETF. An ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain securities in the secondary market or discrepancies between the ETF and the benchmark index with respect to the weighting of securities or the number of securities held. Moreover, there is no guarantee that the strategy employed by actively managed and semi-transparent ETFs will produce the desired results. Investing in ETFs carries the risk of capital loss. ETFs are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in ETFs.

ETFs in which CSIM invests have their own fees and expenses as set forth in their prospectuses. These fees and expenses lower investment returns. Although ETFs themselves are generally classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including, but not limited to, equities, bonds, foreign currencies, physical commodities, and derivatives. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund.

ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk of derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so.

Some ETFs may have been recently launched. Accordingly, there is limited data available when assessing investment risk associated with some of

these ETFs. As a result, one or more of the following may occur: (1) poor liquidity in or limited availability of the ETFs or (2) lack of market depth, causing the ETFs to trade at excessive premiums or discounts.

As previously described for the UMP Program, VictoryShares ETFs are eligible for inclusion in, and are generally included in, UMP Wrap and UMP Custom accounts (other than USAA Mutual Fund Wrap Program accounts and Market Place Mutual Fund Wrap Program accounts). Depending upon certain factors in the ETF selection process, such as the ability to find a non-VictoryShares ETF that meets the investment criteria and that permits investment by UMP Wrap and UMP Custom accounts, CSIM may invest a significant portion, or all, of your UMP Wrap or UMP Custom account in VictoryShares ETFs (other than USAA Mutual Fund Wrap Program accounts and Market Place Mutual Fund Wrap Program accounts).

*Mutual Fund Risks.* Mutual fund managers may base investment decisions for funds on historical information. There is no guarantee that a strategy based on historical information will produce the desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular fund to underperform its benchmark or similar funds. Mutual funds in which CSIM invests have their own fees and expenses as set forth in their prospectuses. These fees and expenses lower investment returns.

Mutual funds may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk of derivatives is that some types of derivatives can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative, or that the counterparty may fail to honor its contract terms, causing a loss for the fund. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that a fund could not close out a position when it would be most advantageous to do so.

The value of mutual funds can be impacted by the movement of large positions in and out of a particular fund. Clients may collectively account for a large portion of the assets in certain mutual funds. A decision by CSIM to buy or sell some or all of a particular fund where CSIM clients hold a significant portion of that fund may negatively impact the value of that fund.

*Mutual Fund Risks – UMP Program.* Mutual funds are categorized into those mutual funds that are Victory mutual funds and those that are non-Victory mutual funds. CSIM puts eligible Victory mutual funds and non-Victory mutual funds through a review process to

determine those that would be included in the UMP Model Portfolios. CSIM subjects all eligible mutual funds to a periodic screening based on objective, quantitative factors such as performance history, risk metrics, stability and continuity of fund management, fund asset size, expense ratios, and other current public information on the funds and their management. Additional subjective, qualitative analysis such as a review of the fund's underlying philosophy, process, people, style consistency, fund availability, future market and/or economic expectations, and overall fit within the recommended UMP Model Portfolio is also considered. Non-Victory mutual funds also include CSIM managed Registered Funds. Furthermore, non-Victory mutual funds eligible for inclusion in UMP Program accounts include those mutual funds available through Schwab's Mutual Fund Marketplace® that are no-load ( i.e., no sales charge) or load waived with no (or a waived) redemption and transaction fees.

The Victory mutual funds are eligible for inclusion in, and are generally included in, UMP Wrap and UMP Custom accounts (other than ETF Wrap Program accounts and Blend Wrap Program accounts). Depending upon certain factors in the mutual fund selection process, such as the ability to find a non-Victory mutual fund that meets the investment criteria of UMP Wrap and UMP Custom accounts, we may invest a significant portion, or all, of your UMP Wrap or UMP Custom account in Victory mutual funds (other than ETF Wrap Program accounts and Blend Wrap Program accounts).

For UMP Wrap or UMP Custom accounts, CSIM will allocate the cash portion of an account to a CSIM managed money market mutual fund. CSIM will determine the cash allocation of a UMP Program account in our sole discretion. If the liquidity of a money market mutual fund significantly decreases (as during a time of significant market stress), the board of trustees of the money market mutual fund may impose a temporary fee on redemptions, referred to as a "liquidity fee," or impose a temporary halt to redemptions, referred to as a "redemption gate." For UMP clients allocated to a money market mutual fund, you should be aware that if liquidity fees or redemption gates were to be imposed, it could impact the ability to settle transactions in your UMP Program account and result in extra fees or delays in liquidating your assets in the money market mutual fund.

If a Victory mutual fund and another similar non-Victory mutual fund is being considered for investment in a UMP Model Portfolio, CSIM, could recommend or select the Victory mutual fund for inclusion in your UMP Wrap or UMP Custom account even if the Victory mutual fund has lower performance or higher fees relative to the non-Victory mutual fund against which it is being compared, based on factors such as CSIM's

conviction regarding a particular fund's strategy or future performance. Therefore, using the Victory mutual fund may result in a material difference in your UMP Wrap or UMP Custom account performance.

*Affiliated Funds Risks.* The value of Registered Funds can be impacted by the movement of large positions in and out of a particular fund. Because of the limited universe of Registered Funds available, SMP Program clients may also collectively account for a large portion of the assets in certain CSIM managed Registered Funds. A decision by CSIM to buy or sell some or all of a particular CSIM managed Registered Fund where SMP Program clients hold a significant portion of that fund may negatively impact the value of that fund.

*Regulatory Risks.* Clients could be limited in their ability to invest in certain unaffiliated ETFs. SEC rules governing fund of funds arrangements on which Schwab mutual funds and Schwab ETFs may rely place limits on investments by those Schwab mutual funds and Schwab ETFs, together with their "advisory group" (which could be deemed to include SIP Program clients), in unaffiliated ETFs. Accordingly, to the extent that one or more Schwab mutual funds or Schwab ETFs invest in the same unaffiliated ETF as clients in the SIP Program in reliance on those SEC rules, the Schwab mutual funds, Schwab ETFs and SIP Program clients, collectively, would be limited to owning no more than 25% of the unaffiliated ETFs outstanding shares.

*Collective Investment Trusts Risks.* To the extent permitted by law, a CSTB collective investment trust may invest in other collective investment trusts and short-term investment funds that may or may not be affiliated with CSTB. These collective investment trusts may not be registered under the 1940 Act (or any other similar state or federal laws). Some of these collective investment trusts may also be recently organized and have no operating histories. CSTB generally will have no power to control the management of certain collective investment trusts, including investments, valuation, brokerage policies and conflicts of interest. Certain collective investment trusts may use proprietary investment strategies that are based on considerations and factors that are not fully disclosed to CSTB. Such strategies can involve significantly more risk and higher transaction costs than more traditional investment methods.

*Schwab Equity Ratings® Risks.* Some of the CSIM managed Registered Funds in SMP-MF accounts use Schwab Equity Ratings as a principal means of selecting individual equities. Schwab Equity Ratings is Schwab's proprietary stock evaluation system and evaluates securities on the basis of a wide variety of investment criteria from five broad categories: Growth, Quality, Sentiment, Stability, and Valuation.

Certain CSIM managed Registered Funds have limitations arising from their use of the Schwab Equity Ratings. Given that systematic stock evaluation approaches cannot capture all the dynamics that affect individual stock returns, Schwab Equity Ratings may not capture more subjective, qualitative influences on return and risk, such as management changes and pending lawsuits. Furthermore, the ratings may not reflect the possible impact of late-breaking news. The quality of the ratings depends on the accuracy of financial data provided by third parties, including the companies rated through the approach.

### **Fixed Income Investment Risks**

*Interest Rate Risks.* Interest rates rise and fall over time. During periods when interest rates are low or there are negative interest rates, a client account's yield and total return also may be low or the client account may be unable to maintain positive returns. Changes in interest rates also may affect the client account's value: a rise in interest rates generally causes a client account's value to fall. The risk is greater when an account holds fixed income securities with longer maturities. A client account may also lose money if interest rates rise sharply. The longer the client account's duration, the more sensitive to interest rate movements its value is likely to be. For example a client account with a longer portfolio duration is more likely to experience a decrease in its share price as interest rates rise. Duration is an estimate of a security's (or portfolio of securities) sensitivity to changes in prevailing interest rates that is based on certain factors that may prove to be incorrect. It is therefore not an exact measurement and may not be able to reliably predict a particular security's price sensitivity to changes in interest rates. Certain countries have recently experienced negative interest rates on certain fixed-income securities. Economic conditions and other factors, including in a central bank's monetary policy or improving economic conditions may result in a change in interest rates, which could have sudden and unpredictable effects on the markets and significantly impact the value of fixed-income securities. Rising interest rates may decrease liquidity in the fixed income securities markets, making it more difficult for CSIM to sell a client account's fixed income securities holdings at a time when CSIM might wish to sell such securities. In addition, decreased market liquidity also may make it more difficult to value some or all of the client account's fixed income securities holdings. In general, changing interest rates, including rates that fall below zero, could have unpredictable effects on markets and may expose fixed-income and related markets to heightened volatility. To the extent that CSIM anticipates interest rate trends imprecisely, a client account could miss yield opportunities or its share price could fall. Inflation-protected securities may react

differently to interest rate changes than other types of debt securities and tend to react to changes in "real" interest rates.

*Credit Risks.* A decline in the credit quality of a portfolio investment could cause a client's account to lose money or underperform. A client could lose money if the issuer or guarantor of a portfolio investment or the counterparty to a derivatives contract fails to make timely principal or interest payments or otherwise honor its obligations. The negative perceptions of an issuer's ability to make such payments could also cause the price of that investment to decline. The credit quality of a portfolio holding can change rapidly in certain market environments and any default on the part of a single portfolio investment could have a negative impact on the value of a client's account.

*High Yield Risks.* Client accounts that invest in high yield securities and unrated securities of similar credit quality (sometimes called junk bonds) are subject to greater levels of credit and liquidity risks than client accounts that do not invest in such securities. High yield securities are considered predominately speculative with respect to the issuer's continuing ability to make principal and interest payments. High yield securities may be more volatile than higher-rated securities. An economic downturn or period of rising interest rates could adversely affect the market for these securities and reduce a client account's ability to sell these securities (liquidity risk). If the issuer of a security is in default with respect to interest or principal payments, a client account may lose its entire investment. Because of the risks involved in investing in high yield securities, an investment in a client account that invests in such securities should be considered speculative.

*Municipal Securities Risk.* If certain types of investments CSIM buys as tax-exempt are later ruled to be taxable, a portion of a client's income could be taxable. In addition, for clients that reside in states that levy a state income tax, it is possible that income from municipal securities issued from other states could be subject to such state income tax. To the extent that a client account is invested in municipal securities from a given state or geographic region, such client account's performance could be affected by local, state and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status or the reduction of financial support to municipalities, also could affect performance. A client account may be more sensitive to adverse economic, business or political developments if a substantial portion of its assets is invested in municipal securities financing similar projects (especially those relating to the education, health care, utilities and transportation sectors). A change that affects one project,

such as proposed legislation on the financing of the project, a shortage of the materials needed for the project, or a declining need for the project, may affect similar projects and the overall municipal securities market. Furthermore, a credit rating downgrade relating to, default by, or insolvency or bankruptcy of one or several municipal security issuers could affect the market values, marketability, and liquidity of other municipal securities, which could impact a client account's performance.

*Bank Loans Risks.* Investments in ETFs or mutual funds that hold bank loans are typically below investment grade credit quality and may be subject to more credit risk, including the risk of nonpayment of principal or interest. Most bank loans are floating rate, whose interest rates are tied to a short-term reference rate, so substantial increases in interest rates may make it more difficult for issuers to service their debt and cause an increase in loan defaults. Bank loans are typically secured by collateral posted by the issuer, or guarantees of its affiliates, the value of which may decline and be insufficient to cover repayment of the loan. Many loans are relatively illiquid or are subject to restrictions on resales, have delayed settlement periods, and may be difficult to value, which could have an adverse impact on the ability of the ETF or mutual fund to sell loans at an advantageous time and/or price. Loans are also subject to maturity extension risk and prepayment risk.

*Government Securities Risks.* Many U.S. government securities are not backed by the full faith and credit of the U.S. government, which means they are neither issued nor guaranteed by the U.S. Treasury. Although maintained in conservatorship by the Federal Housing Finance Agency since September 2008, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) maintain only lines of credit with the U.S. Treasury. Other securities, such as obligations issued by the Federal Farm Credit Banks Funding Corporation, are supported solely by the credit of the issuer. There can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law. Also, any government guarantees on securities a client account owns do not extend to the client account itself. Although the risk of default with U.S. government securities is considered unlikely, any default on the part of a portfolio investment could cause the client account's value to fall. The risk of default may be heightened when there is uncertainty relating to negotiations in the U.S. Congress over increasing the statutory debt ceiling. If the U.S. Congress is unable to negotiate an increase to the statutory debt ceiling, the U.S. government may default on certain U.S. government securities including those held by a client account, which could have an adverse impact on

that client account. In August 2011, the long-term credit rating of the U.S. government was downgraded by a major rating agency as a result of concern about the U.S. government's budget deficit and rising debt burden. More recently, in August 2023, another major rating agency downgraded the long-term credit rating of the U.S. government due to a combination of expected fiscal deterioration, a high and growing government debt burden and an erosion of governance relative to peers. Similar downgrades in the future could increase volatility in domestic and foreign financial markets, result in higher interest rates, lower prices of U.S. Treasury securities and increase the costs of different kinds of debt. Although remote, it is at least theoretically possible that under certain scenarios the U.S. government could default on its debt, including U.S. Treasury securities.

*Prepayment and Extension Risks.* An investment in fixed income securities is subject to the risk that the securities may be paid off earlier or later than expected. Either situation could cause you to hold securities paying lower-than-market rates of interest, which could hurt an account's yield. In addition, rising interest rates tend to extend the duration of certain fixed income securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, your account may exhibit additional volatility. This is known as extension risk. When interest rates decline, borrowers may pay off their fixed income securities sooner than expected. This can reduce the returns of an account because the account will have to reinvest that money at the lower prevailing interest rates. This is known as prepayment risk.

*State and Regional Risks.* To the extent that an SMA Strategy, ETF, or mutual fund invests in securities from a given state or geographic region, its value and performance could be affected by local, state, and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status, also could affect performance. In addition, an SMA Strategy, ETF or mutual fund may be more sensitive to adverse economic, business, or political developments if a substantial portion of it is invested in municipal securities that are financing similar projects.

*Inflation Risks.* The value of assets or income from investments may be lower in the future as inflation decreases the value of money. As inflation increases, the value of a portfolio's assets can decline, as can the value of a portfolio's distributions.

*Positive Impact Analysis Risks.* Because certain Wasmer Schroeder Strategies utilize positive impact analysis, such strategies may perform differently than strategies that do not apply a positive impact analysis. A strategy's use of positive impact

analysis may exclude securities of certain issuers for non-investment reasons and therefore the strategy may forgo some market opportunities available to strategies that do not use positive impact analysis. Additionally, the criteria used to select bonds such a strategy utilizes may result in exposure to certain sectors and/or types of investments which may adversely impact the strategy's performance depending on whether such sectors or investments are in or out of favor in the market. In addition, there is a risk that the bonds identified for the strategies do not create the expected social, environmental or community benefits. Positive impact analysis is not a uniformly defined characteristic and applying it involves a subjective assessment.

### **SPI Risks**

*Index-Related Risks.* The index providers do not provide any warranty as to the timeliness, accuracy or completeness of any data relating to any index utilized by SPI. Errors relating to the index, including index data, computations and/or construction, may occur from time to time and may not be identified by the index provider for a period of time or at all. Losses resulting from index errors may be borne by client accounts. In addition, market disruptions could cause delays in an index's rebalancing schedule which may result in the index and, in turn, a client account experiencing returns different than those that would have been achieved under a normal rebalancing schedule.

*Tracking Error Risks.* The SPI strategies seek to track the performance of the designated index by attempting to mimic the characteristics of the designated index, such as the designated index's exposure and risk characteristics, although they may not be successful in doing so. The divergence between the performance of a client's account and the designated index, positive or negative, is called "tracking error." Tracking error can be caused by many factors, such as restrictions imposed by a client on the types of securities held in the account; available loss harvesting opportunities; regulatory, operational, custodial or liquidity constraints; corporate transactions; asset valuations; transaction costs and timing; tax considerations; investments in securities not included in the index or ADRs; and index rebalancing. In addition, cash flows into and out of a client account, purchases and sales of securities, expenses and trading costs all affect the ability of a client account to track the performance of the index, because the index does not have to manage cash flows and does not incur any costs.

*Optimization Tools Risks.* There are limitations inherent in the use of an optimization methodology to manage SPI accounts relative to a designated index; for instance, the optimization tools are not

designed to account for current market conditions and any short-term market fluctuations. The optimization tools are also not designed to consider certain factors such as individual tax circumstances; rather, its functions consist of identifying opportunities for tax-loss harvesting and rebalancing relative to the client's designated index, and initiating buy/sell orders accordingly.

There is also a risk that the optimization tools and related software used for SPI accounts may not perform within intended parameters, which may result in a portfolio that does not mimic the characteristics of the designated index, and trigger or fail to initiate rebalancing and/or tax-loss harvesting trading.

*ESG Risks.* Because the MSCI KLD 400 Social strategy utilizes an index that considers certain ESG metrics, the strategy may perform differently than strategies that do not screen for ESG attributes. The strategy's use of an index that incorporates ESG considerations in the index construction process may exclude securities of certain issuers for non-investment reasons and therefore the strategy may forgo some market opportunities available to strategies that do not screen for ESG attributes. Additionally, the criteria used to select companies for inclusion in the index that the strategy utilizes may result in exposure to certain sectors and/or types of investments which may adversely impact the strategy's performance depending on whether such sectors or investments are in or out of favor in the market. In addition, there is a risk that the companies identified for inclusion in the index do not operate as expected when addressing ESG issues. ESG is not a uniformly defined characteristic and applying ESG criteria often involves a subjective assessment.

### **Tax and Tax Gain/Loss Harvesting Risks**

*Tax Risks – SMA Strategies.* The SMA Strategies are not designed to address specific tax objectives. Tax treatment of dividends under federal and state law may change over time. Ongoing investment income, capital gains, capital losses, and miscellaneous deductions for some MLPs and certain commodity and currency ETFs, are reported annually on the Schedule K-1, and when MLPs are sold in a taxable account, proceeds will be reported on Form 1099-B. The Schedule K-1 is mailed separately to clients each year and needs to be included in the clients' income tax returns. In cases where the entity generating the Schedule K-1 files for a tax extension beyond April 15, clients may receive their Schedule K-1 after the due date for their income tax return. Individual taxpayers who do not request a filing extension may need to file an amended federal and/or state tax return if they receive their Schedule K-1 after filing their original return. Also, gains and losses associated with some commodities may be taxed differently than standard short-term and long-term capital gains and

losses. Clients should consult a professional tax advisor for help with their unique situations. Neither the tax-loss/gain harvesting strategies for the SMA Programs discussed below, nor any discussion herein, is intended as tax advice, and CSIM does not represent that any particular tax consequences will be obtained.

*Wash Sale Risks – SMA Strategies.* A wash sale is the sale at a loss and purchase of the same or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the IRS may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale if substantially similar replacement shares are bought during the 61-day period.

While CSIM will monitor for wash sales, CSIM does not and cannot prevent wash sales in all cases, and as a result wash sales may occur from trading in multiple accounts held by a client, including multiple accounts in the same SMA Strategy held by the same client. Furthermore, CSIM cannot prevent wash sales that may occur due to client requests that impact trading in a particular account. Additional information regarding wash sales specific to an SMA Strategy are described below.

*Tax Risks – SPI.* SPI is not designed to address specific tax objectives. The potential federal income tax consequences of holding, buying, and selling securities are considered as part of the investment services, but CSIM does not consider state or local taxes; foreign taxes, including those applied to dividends and any potential reclaim; federal tax rules applicable to entities; or estate, gift, or generation-skipping taxes. CSIM can implement trades in accounts that may trigger significant tax consequences as they seek to manage the accounts consistently with strategy investment objectives, including, if required, to sell securities used to fund a client's account. Client generated activity in an SPI account such as fund withdrawal requests and incoming stock transfers may trigger significant tax consequences when CSIM rebalances the client's account to their SPI strategy.

CSIM cannot guarantee the effectiveness of its tax-efficient optimization methodologies in serving to reduce or minimize a client's overall tax liability. There are several investment-related risks associated with tax loss harvesting. There is potential that the tax loss harvesting may: (i) negatively affect the overall performance of a client's portfolio; and (ii) result in a temporary overweight and/or underweight of certain sectors, securities, and/or cash in a client's portfolio.

Individual stock positions can experience price declines, possibly below a client's adjusted tax basis in the security (as determined by the tax basis information on record for the client's SPI account). In such instances, losses can be realized in the client's SPI account for tax purposes. In cases where a position is sold to realize a capital loss for tax purposes, the position usually will be replaced with investments CSIM believes will maintain consistent benchmark exposure. In harvesting tax losses, CSIM does not attempt to harvest every tax loss that occurs in the client's SPI account. Furthermore, each specific lot of securities in a client's SPI account—a block of shares bought at a particular time at a particular price—is reviewed and the potential federal income tax burden associated with selling that lot is weighed against the potential investment merits of the sale, such as performance potential, added diversification, and support of risk-management strategies. Once CSIM decides to sell an eligible security, it will attempt to sell the lot(s) that will generate the lowest overall federal income tax burden (or generate a loss for tax purposes) using the tax basis and holding period information on record.

When calculating after-tax returns, CSIM makes assumptions on applicable U.S. federal tax rates. Applying these U.S. federal tax rates may cause the after-tax performance shown to be different than an investor's actual experience. There is a material risk that investors' actual tax rates, the presence of current or future capital loss carryforwards, and other investor tax circumstances may materially and negatively affect the investor's actual returns. Clients should consult a professional tax advisor to help determine the potential impact of a tax harvesting request on their tax situation.

CSIM considers the ability to harvest losses as part of its tax-efficient optimization methodologies employed for an SPI account. There is no guarantee that the tax-loss harvesting optimization used for SPI will reduce, defer or eliminate the tax liability generated by a client's investment portfolio in any given tax year. CSIM may repurchase securities after the end of the tax loss "wash sale" period at a price higher than that for which they were sold. Securities sold for the purpose of tax loss may or may not be repurchased by CSIM following the 30-day wash sale period.

There is the risk that the investment management activity in the client's account subsequent to the tax loss sale may result in additional realized gains that partially or completely offset the losses realized from the tax loss sale.

*Tax Gain/Loss Harvesting Risks – Selective Portfolios, SMP Program, ThomasPartners Strategies, UMP Custom, Wasmer Schroeder Strategies and Windhaven Strategies.* Clients are able to agree to or request limited tax gain or loss harvesting opportunities in their



accounts. CSIM can accommodate tax gain/loss harvest requests; however, there is a minimum gain or loss per security in order for CSIM to implement a request. The request is subject to CSIM approval, and CSIM reserves the right to decline the request if, in its discretion, the security or market changes are such that the requested action is not or is no longer appropriate for tax harvesting. There is no guarantee that a client tax gain/loss harvesting request will reduce, defer, or eliminate the tax liability generated by a client's investment portfolio in any given tax year. Clients should consult a professional tax advisor to help determine the potential impact of a tax harvesting request on their tax situation.

There are several investment-related risks associated with client-requested tax gain/loss harvesting. There is potential that the gain/loss request may: (i) negatively affect the overall performance of a client's portfolio; (ii) prevent a client's account from being included in large block trades; instead, the account will be traded separately afterward, which could result in an execution price better or worse than the execution price of the large block trade; (iii) result in a temporary overweight and/or underweight of certain sectors, securities, and/or cash in a client's portfolio; and (iv) have negative tax consequences resulting from the recognition of additional capital gains or by having a capital loss disallowed/deferred (such as, a wash sale). CSIM will not consider any other account that the client may have. CSIM has discretion as to the placement of the tax-sale proceeds. Proceeds will either be held in cash or cash equivalents or be reinvested in a security chosen by CSIM. CSIM may repurchase securities after tax gain harvesting or after the end of the tax loss "wash sale" period at a price higher than that for which they were sold. Securities sold for the purpose of tax loss may or may not be repurchased by CSIM following the 30-day wash sale period. CSIM cannot prevent wash sales that may occur in other accounts besides the one in which the harvest was requested as a result of the requested gain/loss harvesting activity.

CSIM will harvest gains and/or losses at the security level only and will not take tax lots into consideration. This means there is potential for a gain to be generated with the sale of the requested security position, despite the security being at a loss overall when combining all tax lots. This may result in partially offsetting the loss being generated and could result in taxes being due on the gains from the sale. This also means that all shares held in this account for the requested security will be sold. For ThomasPartners Strategies Direct Clients, CSIM may also consider tax lots when harvesting gains.

There is the risk that the investment management activity in the client's account subsequent to the tax gain/loss sale may result in additional realized gains or

losses that partially or completely offset the losses realized from the tax gain/loss sale requested.

*Tax Loss Harvesting Risks – SIP Program.* Clients may request Schwab (and CSIM through Schwab) to employ a tax-loss harvesting strategy with any taxable SIP Program account; however, the account must meet the minimum balance requirement of \$50,000 for the tax-loss harvesting strategy to become active on the account. There is also a lower minimum balance requirement to maintain a tax-loss harvesting strategy; for any accounts falling below this minimum balance, the tax-loss harvesting strategy will become inactive until such time as the minimum balance requirement is met. These minimums are designed to limit, but cannot always prevent, scenarios where tax-loss harvesting sales are made and a single share of the replacement ETF is too expensive to purchase. As a result, a portion of the proceeds from the sale of the ETF could remain in cash, rather than being used to purchase a replacement ETF.

The Rebalancing Algorithms are designed to conduct a daily review of client accounts for tax-loss harvesting opportunities. When the tax-loss harvesting threshold is met, the Rebalancing Algorithms are designed to initiate a tax-loss harvesting trade order for accounts in the SIP Program unless there are currently restrictions within the asset class, such as to avoid wash sales. During this process, certain ETFs in the client's account are sold at a loss to offset potential capital gains (although CSIM does not monitor the type and amount of capital gains). If the tax-loss harvesting sale causes the asset class to become underweight, the Rebalancing Algorithms can recommend a buy order to replace the ETFs sold for tax-loss harvesting purposes with the ETF(s) that CSIM reasonably believes are not substantially similar based upon different ETF indices used by each ETF.

When CSIM sells an ETF to harvest a tax loss, and purchases another ETF to replace it, CSIM will generally be unable to sell the replacement ETF for 30 days, even if it could sell the ETF at a gain and not cause a wash sale. If an account needs to be rebalanced in that 30-day period, CSIM will generally not be able to sell the replacement ETF as part of that rebalancing. As a result, the account may not be allocated according to the chosen investment strategy until the 30-day period has expired, which could affect its performance.

In an effort to avoid wash sales, in certain circumstances, the Rebalancing Algorithms will prevent rebalancing and tax loss harvesting transactions from occurring. In those cases, the Rebalancing Algorithms could be unable to rebalance towards the target allocation for 30 or more days, which can impact performance. This can also result in not utilizing all tax loss harvesting opportunities.

CSIM will seek to avoid wash sales in any SIP Program account(s) associated with the same primary account holder (with the exception of custodial or trust accounts). If CSIM is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to sell an ETF at a loss will block the other account(s) from buying in that same ETF for 30 days. Similarly, the first account to buy an ETF will block the other taxable accounts from selling that same ETF at a loss for 30 days.

Although the Rebalancing Algorithms seek to avoid wash sales, they are not designed to and cannot avoid all wash sales. For instance, in the event that securities need to be sold in order to enable withdrawals, such as for withdrawals made through SII, those sales will take place even if they could result in wash sales. If a client sells ETF shares at a loss and uses the proceeds to fund their SIP Program account or other account, CSIM may purchase the same ETF shares for their SIP Program account within 30 days, thereby creating a wash sale. CSIM only monitors for wash sale avoidance for accounts enrolled in the SIP Program, and clients are responsible for monitoring their and their spouse's other accounts (at Schwab or with another firm) to ensure that transactions in the same ETF or a substantially similar security do not create a wash sale.

If a client has two or more SIP Program accounts that are being monitored together to avoid the wash sale disallowance rule, and the accounts hold different ETFs in the same asset class, if the Rebalancing Algorithms recommend selling ETFs in that asset class to harvest tax losses, the Rebalancing Algorithms will choose to do so in the earliest-enrolled account and skip the other account(s), and therefore do not prioritize selling the ETF that will generate the greatest tax loss.

The performance of the replacement ETFs may be better or worse than the performance of the ETFs that are sold for tax-loss harvesting purposes. The utilization of losses harvested through tax loss harvesting will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws.

The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a client's (or client's spouse's) accounts outside of the SIP Program and type of investments (e.g., taxable or non-taxable) or holding period (e.g., short-term or long-term). The tax-loss harvesting strategy is not designed to ensure that it will reduce, defer, or eliminate the tax liability generated by a client's investment portfolio in any given tax year. The Rebalancing Algorithms only monitor accounts enrolled in the SIP Program to determine if there are unrealized losses for purposes of determining

whether to harvest such losses. Transactions in accounts not enrolled in the SIP Program may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the client in the most efficient manner.

Lastly, there is the risk that the investment management activity in the client's account subsequent to the tax loss sale may result in additional realized gains or losses that partially or completely offset the losses realized from the tax loss sale requested.

*Limitations of Disclosure.* The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in CSIM's strategies. As the strategies develop and change over time, clients and investors may be subject to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

## Item 9 – Disciplinary Information

In June 2022, CSIA and its affiliate Schwab (collectively, "Schwab," for purposes of this matter description only) reached an agreement with the SEC to settle a matter related to historical disclosures and marketing of the SIP Program. Although CSIM was not a party to this matter, because CSIM has become the investment adviser to the SIP Program, the disclosure regarding this matter has been included in CSIM's disclosure brochure.

The SEC found that Schwab, along with its former affiliate, Schwab Wealth Investment Advisory, Inc., violated certain provisions of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the rules thereunder, from March 2015 through November 2018. The SEC found that Schwab made false and misleading statements in Form ADV Part 2A brochures about the cash allocations in SIP Program accounts, in particular about: (1) Schwab's conflict of interest in setting the cash allocations; (2) the influence of this conflict of interest on the size of the cash allocations; and (3) the negative effect of the cash allocations on performance in SIP Program accounts under market conditions where other assets such as equities outperform cash. The SEC also found that Schwab failed to sufficiently implement compliance policies designed to prevent the publication of misleading statements. Finally, the SEC found that Schwab made similarly misleading statements in advertisements for the SIP Program.

Without admitting or denying these findings, Schwab agreed to pay a total of \$186,536,861 in disgorgement, pre-judgment interest, and civil penalties. Schwab also agreed to engage an independent consultant to: (1) review Schwab's supervisory, compliance, and other policies and procedures designed to ensure that Schwab's SIP Program-related disclosures, advertising,

and marketing communications comply with the requirements of the Advisers Act, and the rules thereunder, and with other applicable federal securities laws with respect to the SIP Program; and (2) submit a report to both Schwab and the SEC describing the independent consultant's findings and making recommendations. Schwab may identify any recommendations that it considers to be unduly burdensome, impractical, or inappropriate and attempt to reach agreement over such recommendations with the independent consultant, and Schwab must ultimately adopt and implement the independent consultant's final recommendations.

## **Item 10 – Other Financial Industry Activities and Affiliations**

As a wholly owned subsidiary of CSCorp., CSIM leverages the resources of CSCorp., Schwab, and their affiliated companies, such as personnel including, but not limited to, its Chief Compliance Officer (“CCO”); Chief Legal Officer; legal and compliance support; sales, marketing, technology, operations, finance, human resources, and risk management personnel. CSIM pays Schwab for the services of certain employees and for the facilities and equipment necessary to enable it to provide advisory services to clients. CSIM and Schwab personnel have reporting relationships to personnel of affiliated entities. These arrangements and others noted below create the potential for conflicts of interest to arise. These potential conflicts of interest are governed by various policies adopted by CSIM. For example, CSIM has adopted policies and procedures reasonably designed to protect against the misuse of information (and mitigate potential conflicts of interest) whether among CSCorp.-affiliated entities or entities or individuals outside of CSCorp. and its affiliates. Other wholly owned subsidiaries of CSCorp. are engaged in investment advisory, brokerage, trust, custody, or banking services.

### **Charles Schwab & Co., Inc.**

CSIM is under common control with Schwab, which is both a registered broker-dealer and a registered investment adviser, and a wholly-owned subsidiary of CSCorp. Schwab serves as the principal underwriter for certain Registered Funds managed by CSIM but does not receive any compensation in that capacity. However, Schwab receives recordkeeping, shareholder servicing and other administrative servicing fees from certain Registered Funds managed by CSIM. CSIM also pays Schwab for the services of certain employees primarily providing sales and marketing services.

CSIM pays Schwab an annual fee to obtain Schwab Equity Ratings and Schwab Equity Ratings International, which are maintained by Schwab and used by CSIM

in its management of the equity strategies for certain Registered Funds. If the Schwab Equity Ratings and/or Schwab Equity Ratings International were no longer available, CSIM would need to alter its methods of analysis for these Registered Funds.

Schwab, as an insurance agency, offers insurance products that make available Registered Funds managed by CSIM as part of the insurance product offering.

Schwab sponsors, develops, coordinates the calculation of and maintains the Schwab 1000 Index. The Schwab 1000 Index ETF and Schwab 1000 Index Fund that are managed by CSIM seek to track the performance of the Schwab 1000 Index by investing in the constituents of such index or a representative sample of such constituents of the index. The SPI Schwab 1000 Equity strategy seeks to track the performance of and mimic the characteristics of the Schwab 1000 Index while enhancing after-tax returns through the use of tax-efficient optimization methodologies. Schwab does not provide recommendations to CSIM or the Registered Funds using the Schwab 1000 Index regarding the purchase or sale of specific securities. In addition, Schwab will not provide any information relating to changes to the Schwab 1000 Index methodology for the inclusion or exclusion of component securities or methodology for the calculation or the return of component securities to CSIM portfolio management teams, the Registered Funds or SPI, in advance of a public announcement of such changes by Schwab.

CSIM selects and recommends investment advisers to act as (i) sub-advisers for Registered Funds advised by CSIM, (ii) sub-advisers to CSTB collective investment trusts, (iii) investment advisers of Registered Funds in which CSIM advised Registered Funds or SMAs invest, or (iv) investment advisers to Registered Funds that are part of model portfolios or are used in CSTB collective investment trusts. Such investment advisers may have a business relationship with Schwab whereby Schwab has agreed to make mutual funds advised by such investment advisers available through Schwab's Mutual Fund Marketplace. Schwab receives fees from mutual funds and/or their affiliates for the services Schwab provides in connection with Schwab's Mutual Fund Marketplace. CSIM does not take into consideration whether an investment adviser advises mutual funds that participate in these platforms when making its recommendations or selections. Schwab also makes available certain Registered Funds advised by CSIM through its Schwab Mutual Fund OneSource<sup>®</sup> service, Schwab's no load, no transaction fee platform.

In its role as sponsor of the SMP Program, CSIM's affiliate, Schwab, sets the target asset allocations for each SMP Program portfolio and creates the parameters that determine mutual fund and ETF eligibility for the SMP Program. Although CSIM does not favor its

own Registered Funds, or disfavor any third-party mutual fund or ETF, in its selection of investments or allocation among investments for the SMP Program portfolios, the parameters and eligibility criteria created by Schwab are designed, in part, to favor certain CSIM managed Registered Funds and to disfavor certain third-party mutual funds and ETFs.

In its role as sponsor of the SIP Program and SIP Premium Program, CSIM's affiliate, Schwab, sets the target asset allocations for each SIP Program portfolio and creates the parameters that determine ETF eligibility for the SIP Program. Although CSIM does not favor its own Registered Funds, or disfavor any third-party ETF, in its selection of investments or allocation among investments for the SIP Program portfolios, the parameters and eligibility criteria created by Schwab are designed, in part, to favor certain CSIM managed Registered Funds and to disfavor certain third-party ETFs. Schwab has a financial interest in certain CSIM managed Registered Funds because it or its affiliates receive advisory and recordkeeping, shareholder servicing and other administrative servicing fees from those Registered Funds. This results in higher overall compensation to Schwab, CSIM, and the ultimate parent entity, CSCorp. Schwab also receives fees from certain third party funds (or their affiliates) in the SMA Strategies and CSIM managed Registered Funds for record keeping, shareholder services, and other administrative services and in certain cases, for marketing and promotion of a third party fund. The aggregate fees Schwab or its affiliates receive from the CSIM managed Registered Funds may be greater than the fees Schwab receives from third party funds.

If an SMA Strategies client's account(s), other than those in the SIP Program, is custodied at Schwab, cash in the account(s), whether as an investment holding, or while awaiting pending investment or distribution, may be invested in: (1) a money market fund that is managed by CSIM or distributed by Schwab; (2) a sweep feature, which automatically makes deposits to and withdrawals from deposit accounts at one or more Program Banks (CSTB, Charles Schwab Bank, SSB, and Charles Schwab Premier Bank), which are FDIC-insured depository institutions, but are not eligible for SIPC insurance; or (3) a Schwab One<sup>®</sup> Interest Feature (collectively, "Schwab Cash Vehicles"). In addition, Direct Client accounts may also have investments in CSIM managed Registered Funds. This presents a conflict of interest because CSIM, Schwab and its affiliates can earn income on investments in Schwab Cash Vehicles. The CSIM fees Direct Clients pay will be adjusted relative to the Schwab Cash Vehicle and CSIM managed Registered Funds for retirement accounts, including IRAs and accounts subject to ERISA. CSIM reserves the right to change the manner in which it makes accommodations,

to the extent permitted by applicable law. More information about Schwab Cash Vehicles may be found in clients' brokerage account agreement(s) with Schwab.

Schwab effects securities transactions for clients in the SMA Strategies on an agency basis, except in limited circumstances such as when executing fractional shares. To facilitate the sale of fractional shares, Schwab will purchase fractional shares from a client on a principal basis. Acting as principal on a trade is a conflict of interest because Schwab is on the other side of the transaction from the client; however, Schwab seeks to mitigate this conflict by not charging additional fees on fractional share trades.

Selective Portfolios, ThomasPartners Strategies, UMP Program and Windhaven Strategies clients, that invest through the Schwab Managed Account Programs should note that over time only a small portion of transactions are executed for their accounts through Schwab. Wasmer Schroeder Strategies clients that invest through the Schwab Managed Account Programs should note that only the equity portion of transactions may be executed for their accounts through Schwab.

In connection with the SMA Strategies, CSIM provides Schwab with composite performance reporting data resources and support, for which CSIM is paid a fee.

Lastly, CSIM provides non-discretionary model portfolios to Schwab for its model platform. CSIM is not responsible for determining which securities to buy or sell for those who invest in model portfolios provided to Schwab.

### **Pooled Investment Vehicles**

CSIM provides investment advice to a number of Registered Funds, and may be deemed to control such funds, although CSIM disclaims any control relationship. CSIM also makes recommendations in connection with the management of certain collective investment trusts although CSTB retains ultimate investment discretion over those funds.

### **Charles Schwab Bank, SSB**

CSIM is under common control with Schwab Bank. Schwab Bank earns income on cash balances participating in the SIP Sweep Program, which presents a conflict of interest. Additional details regarding the SIP Sweep Program can be found in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement and the Schwab Intelligent Portfolios Solutions disclosure brochure. Clients should carefully consider these conflicts of interest prior to enrolling in the SIP Program. Schwab Bank earns income on some of the cash of other SMA Strategies clients custodied at Schwab.

## **Charles Schwab Trust Bank**

CSIM is under common control with CSTB. CSIM provides non-discretionary investment management advice to CSTB pursuant to an agreement between CSIM and CSTB with respect to collective investment trusts maintained and advised by CSTB. CSIM also provides CSTB with trading and allocation support, at CSTB's request. CSTB, however, retains the authority to accept or reject CSIM's recommendations. In addition, CSIM provides administrative and proxy voting services to, and receives compensation from, CSTB. CSTB further provides custodial and other trust services to certain of Schwab's customers and affiliates. CSTB provides directed trust and custody services to employee benefit or similar types of plans, and makes certain Registered Funds advised by CSIM available to these clients.

## **Charles Schwab Trust Company**

CSIM is under common control with CSTC. CSIM creates certain non-discretionary model portfolios for CSTC ("CSTC Models") in connection with the management of trust assets. CSIM also offers access to other model portfolios, SMP Program strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies to CSTC in connection with the management of trust assets. CSTC is responsible for determining the models to be used for trust assets and has the ultimate decision making and discretionary responsibility for the determination of which securities are to be purchased and sold for trust accounts. CSTC is also responsible for determining which of the SMP Program strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies are to be used for trust assets. At CSTC's direction, CSIM directs trades to its affiliate, Schwab, for trust accounts invested in the CSTC models. CSIM also provides proxy voting guidance to CSTC under an inter-company agreement for which CSIM is compensated. CSIM receives a fee from CSTC for the CSTC Models, SMP Program strategies, ThomasPartners Strategies and Wasmer Schroeder Strategies based on a percentage of CSTC's client assets being managed pursuant to the program and those strategies.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics - General**

CSIM has adopted a code of ethics (the "Code") pursuant to Rule 204A-1 under the Advisers Act. The Code sets forth standards of business conduct that reflect CSIM's fiduciary obligations to its clients and requires CSIM employees to comply with all applicable laws, rules and regulations and to promptly

report any violation of the Code to a supervisor or CSIM's CCO or their designee. The Code also requires CSIM's officers, directors, employees, contractors and any person who is determined to have access to non-public information regarding any client or CSIM ("access persons") to (i) report, and CSIM to review, personal securities transactions and securities holdings periodically, (ii) pre-clear transactions in covered securities when required, and (iii) confirm compliance with the provisions of the Code on a periodic basis. Covered securities do not include direct obligations of the U.S. government, high quality short-term debt instruments, investments in non-Schwab affiliated 529 college savings plans, investment in the Schwab Fund for Charitable Giving, and shares of affiliated and non-affiliated money market funds. The Code may be changed as necessary to remain current with regulatory requirements and internal policies and procedures.

A client or prospective client may obtain a copy of CSIM's Code without charge by calling CSIM at (877) 824-5615.

### **Material Non-Public Information**

The Code prohibits access persons from disclosing portfolio transactions or any other material non-public information to anyone outside of CSIM, except as required to effect securities transactions for clients, and from using material non-public information for personal profit or to cause others to profit. Employees are also prohibited from engaging in deceptive conduct in connection with the purchase or sale of securities for client accounts.

### **Gifts and Business Entertainment**

CSIM access persons may not give or accept gifts or business entertainment that violate applicable laws or create a conflict of interest or the appearance of impropriety.

### **Participation or Interest in Client Transactions**

CSIM or Schwab may recommend that a client purchase securities of CSCorp., the parent company of both CSIM and Schwab. Certain Registered Funds managed by CSIM may purchase securities in an underwriting in which Schwab participates, to the extent consistent with the 1940 Act and the rules and regulations thereunder. Schwab, as an insurance agency, offers insurance products that make available Registered Funds managed by CSIM as part of the insurance product offering.

Schwab sponsors the SMP Program and receives compensation from mutual funds held in SMP Program accounts. This compensation is in addition to the explicit asset-based fee that the SMP Program clients pay to Schwab. In addition, CSIM earns compensation

from any Registered Funds managed by CSIM held in the SMP Program. As a result, CSIM has a conflict of interest in selecting such Registered Funds, which pay compensation to CSIM and/or Schwab. SMP Program clients receive detailed disclosures about Schwab's and CSIM's SMP Program-related compensation in Schwab's disclosure brochure for Schwab Managed Portfolios.

CSIM has a conflict of interest because it selects or makes recommendations with respect to Registered Funds, including CSIM managed Registered Funds, for various SMA Strategies client accounts, certain Registered Funds it manages, and for CSTB. Other affiliates of CSIM may buy or sell the same securities for client accounts. These are all inherent conflicts of interest within and among CSIM, Schwab, and its affiliates. CSIM mitigates these conflicts of interest through its policies and procedures, which include the evaluation of the selection and investment in Registered Funds, including Registered Funds managed by CSIM, consistent with CSIM's fiduciary duty. Subject to Schwab's oversight as the SMP Program and SIP Program sponsor, the investment decision-making processes of CSIM portfolio management teams are separate and independent from Schwab.

Certain Registered Funds to which CSIM provides investment advice are fund-of-funds. Consistent with the funds-of-funds' investment objectives and strategies, CSIM may recommend that these funds-of-funds allocate a portion of their portfolios to other Registered Funds advised by CSIM for which CSIM receives investment advisory and/or administration fees. CSIM has policies and procedures in place to establish appropriate controls to identify, and to limit use and distribution of, confidential information about the firm, its businesses and its clients. CSIM does not receive investment management fees from many of the fund-of-funds that it manages. For those funds-of-funds that do pay CSIM an investment management fee, the board of trustees of such funds-of-funds meets annually to determine that the amount of the fee is appropriate given the services provided by CSIM. Similarly, CSIM may recommend that certain collective investment trusts advised by CSTB invest in Registered Funds managed by CSIM and other collective investment trusts advised by CSTB.

When recommending that the CSIM advised funds-of-funds invest in other Registered Funds with multiple share classes, CSIM will recommend that the funds-of-funds invest in the lowest cost share class for which the funds-of-funds are eligible. Similarly, when recommending to CSTB that a collective investment trust invest in underlying pooled investment vehicles or Registered Funds with multiple share classes, CSIM will recommend to CSTB the lowest cost share class for which the collective investment trust is eligible.

When recommending that SMA Strategies client accounts invest in Registered Funds with multiple share classes, CSIM will recommend that such client accounts invest in the lowest cost share class for which the client accounts are eligible. As noted above, the fees CSIM receives from the SMA Strategies will be adjusted relative to the CSIM managed Registered Funds for retirement accounts, including IRAs and accounts subject to ERISA for client accounts custodied at Schwab.

Schwab, a related person of CSIM, is a registered broker-dealer that effects securities transactions for its brokerage customers. Schwab may act as a principal or agent in these transactions. In the normal course of the conduct of its business as a broker-dealer, Schwab may enter into purchase and sale transactions in securities that CSIM has recommended to its clients.

CSCorp., Schwab and CSTB may invest for the benefit of their own accounts in the same securities that CSIM recommends to its clients. From time to time CSIM maintains test brokerage accounts ("test accounts") to facilitate operational matters. These affiliates and CSIM test accounts may buy or sell securities at the same time that CSIM clients are buying or selling the same security and may take positions that are the same or contrary to one that CSIM has recommended. In addition, directors, officers and employees of CSIM may buy or sell for themselves (through personal accounts or through accounts of which they are direct or indirect beneficiaries) securities that are also recommended to, or purchased or sold on behalf of, clients.

### **Personal Trading**

CSIM and its affiliates have established policies and procedures designed to prevent the exchange of information between employees at each organization relating to securities holdings and possible trades. Additionally, the personal securities transactions of CSIM's access persons are subject to the Code, which is designed to detect and mitigate or prevent conflicts of interest and unlawful practices that may arise in connection with an access person's personal securities transactions. For example, as described above, the Code requires periodic reporting and review of personal securities transactions and securities holdings. Furthermore, the Code requires access persons to obtain prior approval from the compliance department prior to engaging in a security transaction except for certain types of transactions deemed not to present conflicts of interest with CSIM's advisory activities on behalf of its clients ("Exempted Transactions"), such as purchases pursuant to an automatic investment plan. Access persons are restricted from executing personal transactions in securities, except for Exempted Transactions, when they

know or should have known at the time that there is a pending “buy” or “sell” order in the same security for any client account. Portfolio managers are subject to a blackout period of seven calendar days for both when a security is traded, or is expected to be traded on behalf of a client account and after a security has been traded on behalf of a client. In addition, certain access persons are prohibited from realizing a profit from purchasing and selling, or selling and purchasing, the same security on a short term basis. All access persons are also prohibited from executing a personal transaction in securities when the access person has material non-public information regarding the security or issuer. Certain personal transactions in securities may be subject to further review by CSIM’s CCO or their designee.

## **Item 12 – Brokerage Practices**

Generally, for equity and multi-asset SMA Strategies, Registered Funds and collective investment trusts, CSIM has separate portfolio management teams and a joint trading group (the “Trading Group”). For certain multi-asset Registered Funds, the portfolio managers conduct the trades. For fixed income SMA Strategies and Registered Funds, both portfolio managers and traders conduct the trades. Each SMA Strategy, Registered Fund, and/or collective investment trust has its designated portfolio management team. The Trading Group supports multiple portfolio management teams. Generally, the Trading Group trades the products and strategies for which it is designated and each portfolio management team provides advice to the products and strategies for which it is designated. However, the Trading Group or a portfolio management team may provide services to products and strategies for which it is not designated. For example, a portfolio management team may determine to use the Trading Group or another portfolio management team that specializes in a particular segment of the financial markets to provide trading services and/or portfolio management for that segment of the financial market within its designated product or strategy. In addition, the head of the Trading Group or a portfolio management team has discretion to assign the necessary personnel to trade and/or provide investment advice for a specific product or strategy.

CSIM has established informational barriers and procedures that seek to prohibit personnel from communicating or distributing any non-public information related to the trading activities of a product or strategy such personnel support (including information regarding pending orders for clients) to other CSIM personnel that should not be privy to such information. When CSIM personnel are part of separate portfolio management teams, on the Trading Group or trade for products and strategies for

which they are not designated, CSIM has adopted procedures governing such trading activities to seek to ensure such CSIM personnel are not communicating or distributing any non-public information related to their trading activities of a product or strategy (including information regarding pending orders for clients) to personnel on the Trading Group or a portfolio management team that are not involved in trading for and management of that product or strategy or utilize such non-public information among products or strategies in a manner that is not consistent with policies and procedures.

The Trading Group and each portfolio management team seeks to obtain best execution on orders it originates that are not directed brokerage; however, clients serviced by the Trading Group or different portfolio management teams could receive or appear to receive more favorable outcomes.

Generally, the Trading Group or a portfolio management team will aggregate and allocate orders only among those clients that it services and independently of each other. However, at times the Trading Group or a portfolio management team that trades for client accounts for which it is not designated may aggregate trades for those client accounts with trades for client accounts for which it is designated only if it is in the best interests of one or more clients to execute their trades on an aggregated basis.

### **Selecting or Recommending Broker-Dealers**

CSIM is responsible for selecting brokers or dealers to execute transactions for client accounts, except for client accounts with a directed brokerage agreement and assets under the management of sub-advisers. For more information about directed brokerage for the SMP Program, SIP and SPI see the “Directed Brokerage” section. The sub-advisers that are responsible for recommending brokers or dealers are subject to the general oversight of CSIM and, with respect to CSTB, CSIM provides assistance to CSTB with respect to policies and procedures for selecting and monitoring collective investment trust brokers.

CSIM seeks best execution for its clients’ portfolio transactions that are not directed brokerage. CSIM places trades in various manners including through different broker/dealers, agency brokers, principal marketmaking dealers, smaller brokers and dealers, which may specialize in particular regions or asset classes, futures commission merchants and over-the-counter derivatives dealers (each, a “broker” for purposes of the discussion in this section). CSIM also uses electronic trading methods, including alternative trading systems (“ATSs”). CSIM evaluates the quality and cost of services received from broker-dealers on a periodic and systematic basis and considers a number of factors in selecting brokers

or dealers to execute these transactions. These factors can include, without limitation, the following: execution price; transaction fees inclusive of commissions, mark-ups and mark-downs, brokerage fees, dealer spread and other brokerage fees; size or type of the transaction; nature or character of the markets; clearance or settlement capability; reputation; financial strength and stability of the broker or dealer; promptness, reliability and efficiency of execution related services and error resolution; accuracy of trades; block trading capabilities; ability to execute trades in difficult market conditions; ability to source liquidity; willingness to use balance sheet; confidentiality; and provision of additional brokerage or research services or products. In seeking best execution, CSIM considers whether the transaction represents the best qualitative and quantitative execution under the circumstances, which is not solely determined by the lowest brokerage fee available. CSIM does not consider sales of Registered Funds advised by CSIM or the receipt of client referrals as a factor in selecting a broker to effect a portfolio transaction; however, CSIM can execute through brokers that sell shares of Registered Funds advised by CSIM or provide client referrals. In addition, CSIM can execute through Authorized Participants (institutional investors who have entered into an authorized participant agreement with the Schwab ETFs) for the Schwab ETFs or through Authorized Participants' affiliated broker-dealers.

CSIM can place orders directly with ATSS. Placing orders with ATSS could enable clients to trade directly with other institutional holders. At times, this allows clients to trade larger blocks at more favorable prices than would be possible trading through another market venue.

In determining when and to what extent to use Schwab or any other affiliated broker-dealer as a broker for executing orders for clients, CSIM follows procedures that are designed to assure that affiliated brokerage commissions (if relevant) are reasonable and fair in comparison to unaffiliated brokerage commissions for comparable transactions.

Additional information about CSIM's brokerage practices with respect to the Registered Funds is included in their respective prospectuses and statements of additional information.

### **Soft Dollars**

CSIM generally will not enter into formal soft-dollar arrangements with brokers or third parties to obtain brokerage or research services in exchange for brokerage commissions paid by advised accounts. However, CSIM does receive various forms of eligible proprietary research that is bundled with brokerage services at no additional cost from certain of the brokers with whom CSIM executes equity or fixed income

trades. These include brokers CSIM is affiliated with such as Schwab or from participation in Broker/Custodian-Related Programs for certain separately managed account strategies. These services or products can typically include: company financial data and economic data (e.g., unemployment, inflation rates and GDP figures), stock quotes, last sale prices and trading volumes, research reports analyzing the performance of a particular company or stock, access to websites that contain data about various securities markets, narrowly distributed trade magazines or technical journals covering specific industries, products, or issuers, seminars or conferences registration fees which provide substantive content relating to eligible research, discussions with research analysts or meetings with corporate executives which provide a means of obtaining oral advice on securities, markets or particular issuers, short-term custody related to effecting particular transactions and clearance and settlement of those trades, lines between the broker-dealer and order management systems operated by a third party vendor, dedicated lines between the broker-dealer and CSIM's order and execution management system, dedicated lines providing direct dial-up service between CSIM and the trading desk at the broker-dealer, and message services used to transmit orders to broker-dealers for execution. CSIM can use research services furnished by brokers or dealers in servicing all client accounts, and not all services will necessarily be used in connection with the account that paid commissions or spreads to the broker or dealer providing such services.

Although CSIM does not have arrangements to cause a client to pay higher commissions to obtain soft dollar benefits, CSIM benefits from its receipt of bundled research because it does not have to produce or pay for the research, products or services. Consequently, CSIM has an incentive to select or recommend a broker-dealer based on its interest in receiving the proprietary research or other products or services.

CSIM will sometimes purchase for clients new issues of securities in a fixed price offering. In these situations, the seller may be a member of the selling group that will, in addition to selling securities, provide CSIM with research services, in accordance with applicable rules and regulations permitting these types of arrangements. Generally, the seller will provide research "credits" in these situations at a rate that is higher than that which is available for typical secondary market transactions.

CSIM has an internal committee to oversee trading practices, and has established policies and procedures applicable to best execution, soft dollars and other client commissions practices. The policies and procedures require CSIM portfolio management to obtain approval from that committee for certain



arrangements with a broker to obtain a research product or brokerage services. CSIM is not obligated to direct client transactions to broker-dealers that provide research information. During its last fiscal year, CSIM did not pay commissions to a particular broker-dealer in return for brokerage and research services but, as noted above, CSIM may have executed through “full service” broker dealers at a rate higher than might otherwise be available.

### **Directed Brokerage**

CSIM does not recommend, request, require or permit any Registered Fund or collective investment vehicle to direct CSIM to execute transactions through a specified broker-dealer. Also, CSIM does not recommend, request, require or permit any Selective Portfolios, ThomasPartners Strategies, UMP Program, Wasmer Schroeder Strategies or Windhaven Strategies client to direct CSIM to execute transactions through a specified broker-dealer.

Clients in the SIP Program, SMP Program and SPI agree in their account agreements with Schwab that all brokerage transactions for equity securities will be executed by Schwab. SMA clients of CSTC, other than those invested in ThomasPartners Strategies and Wasmer Schroeder Strategies, agree in their account agreements with CSTC that all brokerage transactions for equity securities will be executed by Schwab. As a result, a client might not always obtain as favorable a price or execution as could have been available through another broker-dealer. Directed brokerage arrangement monitoring and trading are subject to systems and technology constraints and availability and, while unlikely, may not take place daily. Not all broker-dealers or investment advisers require their clients to direct trades to a particular broker-dealer (also known as “directed brokerage”). Because Schwab receives a portion of the wrap fee for its brokerage and other services in the SMP Program and SPI, CSIM and its affiliates could make more money than if CSIM provided its investment advisory services outside of the SMP Program and SPI. Clients should consider that, depending upon the level of the wrap fee charged by Schwab, the amount of portfolio activity in the client’s account, the value of custodial and other services provided by Schwab, the wrap fee could exceed the aggregate cost of such services if they were to be provided separately and if CSIM negotiated brokerage fees and sought best price and execution on a transaction by transaction basis. In reviewing Schwab execution quality, CSIM considers whether a transaction represents the best qualitative and quantitative execution under the circumstances, which may not be solely determined by the lower brokerage fee available. More specific information about the Schwab Managed Account Programs and Schwab’s

brokerage practices for clients who participate in the Schwab Managed Account Programs appears in Schwab’s disclosure brochures for those programs, which are provided to program clients directly by Schwab.

### **Trading Process**

Trade orders for the different strategies CSIM manages are generated by each strategy’s portfolio management team and/or trade operations, on various systems. The orders are executed by the Trading Group or portfolio management, or transmitted to Schwab, as applicable, utilizing one or more trading strategies seeking to achieve a specific trading benchmark (e.g., price at the time of order arrival, market closing price, volume weighted average price over some specified period). Certain trading strategies place relatively greater emphasis on price, others on speed of execution, while others place greater emphasis on reducing market impact cost. As a result, the speed of trade order fulfillment and the prices achieved for the same security are likely to vary in different programs or strategies. Certain strategies, which include accounts in programs with different fee structures, may trade in advance of other strategies or their trades could be completed more quickly, and, in these cases, could achieve different execution on the same or similar securities. In addition, asset class, market, regulatory, and/or country limitations (especially in the case of emerging markets) may contribute to differences in security prices.

SIP Program, SMP Program, SPI and certain CSTC clients direct CSIM and CSTC, as applicable, to use Schwab to effect securities trades for their account. Large share trade orders can occur when there are large daily flows into or out of an SMA Strategy, CSIM reallocates/rebalances or engages in tax-loss/gain harvesting in clients’ accounts, or CSIM replaces an ETF with another ETF across all applicable client accounts. For these large trade orders, Schwab may solicit bids and offers from other broker-dealers that may act as principal in the transaction, meaning that the other broker-dealer executes the trade in an account in which the broker-dealer has a beneficial ownership interest or may execute a riskless-principal trade where the other broker-dealer buys (sells) a security from (to) a third party (e.g., another customer or broker-dealer).

### **Aggregation and Allocation of Securities Transactions – Pooled Investment Vehicles**

In certain market circumstances, CSIM could determine that it is in the best interests of one or more clients to execute their trades on an aggregated basis. CSIM will not aggregate transactions if it determines that to do so (i) would be unfair or inequitable in the

circumstances; (ii) is impractical; or (iii) is otherwise inappropriate in the circumstances. Clients could pay higher transaction costs or otherwise receive less favorable prices or execution if CSIM does not aggregate trades when it has an opportunity to do so.

CSIM's aggregation and allocation procedures are reasonably designed to provide that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client over another and that, over time, client accounts are treated fairly and equitably, even though a specific trade could have the effect of benefiting one account over another when viewed in isolation. To aggregate purchase and sale orders for two or more client accounts:

- (1) CSIM will not receive additional compensation or remuneration of any kind as a result of aggregating transactions for clients.
- (2) CSIM, for each client, will determine that the purchase or sale of each particular security involved is appropriate for the client and consistent with its investment objectives and its investment guidelines or restrictions.
- (3) Each client that participates in a block trade will participate at the average security price with all transaction costs shared on a pro-rata basis.
- (4) Client account information at CSIM will separately reflect the securities that have been bought, sold and held for each client.

For equity transactions (except shares of mutual funds), trade orders received contemporaneously for the same security, trading in the same direction (buy/sell) and which use the same trading strategy are candidates for aggregation. However, such trades will only be aggregated if CSIM believes that aggregation is appropriate and consistent with CSIM's duty to seek best execution. CSIM could encounter other circumstances where they believe it is appropriate to aggregate trades across multiple Registered Fund accounts. CSIM is permitted to aggregate orders not meeting the above criteria provided that CSIM believes that such aggregation is in the best interest of each client account and consistent with CSIM's duty to seek best execution. Adjustments to a pro-rata allocation can be made to avoid having odd lots or fractions of shares held in any client account, or to avoid conflicts with limitations established for a client.

When CSIM aggregates orders for the same fixed income security for different Registered Funds, those orders are generally allocated after execution. For fixed income and money market fund accounts that have similar strategies, CSIM determines allocations with the general purpose of achieving, as nearly as possible, performance and portfolio characteristic parity/proportionality among such accounts over

time. Additional factors considered in determining allocations include, but are not limited to: (i) duration; (ii) sector weights relative to benchmarks; (iii) capacity available for a particular name or sector; (iv) cash flow/liquidity; (v) portfolio yield; and (vi) weighted average maturity or weighted average life. In furtherance of our general goal, similar money market fund accounts furthest from achieving performance and portfolio characteristic parity typically receive priority in allocations. For fixed income and money market fund accounts that do not have similar strategies, CSIM personnel document target ranges for significant portfolio characteristics ("Target Ranges") and determine allocations among such accounts in accordance with the Target Ranges in effect at the time of the trade. CSIM personnel can give priority to a particular account in circumstances where the transaction is necessary to meet that account's investment objective, and can consider additional factors including, but not limited to: (i) the factors set forth for similar client accounts; (ii) alternative minimum tax; (iii) issuing state; (iv) tax exempt versus taxable income status of the security; and (v) portfolio characteristics of client accounts.

Trade allocations made in a manner other than as described above, other than adjustments to equity pro-rata allocations to avoid odd lots or partial executions, must be made in accordance with CSIM's policies and procedures.

Additional information about CSIM's aggregation and allocation of securities practices with respect to the Registered Funds is included in their respective statements of additional information.

### **Aggregation and Allocation of Securities Transactions – Selective Portfolios, SIP Program, SMP Program, SPI, UMP Program, ThomasPartners Strategies and Windhaven Strategies**

CSIM will not aggregate trades unless it believes that aggregation is consistent with its duty to seek best execution for affected clients in the aggregate and consistent with the terms of the client's investment advisory agreement. If CSIM aggregates trades, it can aggregate securities sales or purchases across the strategies and products for which it provides trading services. If trades are not aggregated, clients could pay prices for the transactions that are different from what they might have paid had the trades been aggregated. When aggregating, CSIM can, consistent with its policies and procedures and fiduciary duties, include employee accounts in an aggregated order. CSIM can exclude from aggregation those client accounts that have relevant restrictions (e.g., a custodian that does not allow or cannot process explicit commissions paid to an executing broker) or client

activity (e.g., withdrawals pending). In addition, CSIM has discretion not to aggregate certain securities in client accounts that could at times be executed through aggregation (e.g., individual bonds). Trade allocation procedures are reasonably designed to provide that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client over another, and that over time client accounts are treated fairly and equitably, even though a specific trade may have the effect of benefiting one account over another when viewed in isolation.

For SPI accounts, nearly all trades are aggregated as part of one or more blocks, but CSIM may also trade securities on an individual account basis. When aggregating, CSIM may, consistent with its policies and procedures and fiduciary duties, include proprietary and/or employee accounts in an aggregated order. CSIM may exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending).

For ThomasPartners Strategies accounts, nearly all trades are aggregated as part of one or more blocks, but CSIM may also, for Direct Clients, trade securities on an individual basis. CSIM may decide either to send the blocks to the client's custodian for execution or trade away the block to an executing broker as described further below. The method of execution will depend on a variety of factors and will be at the discretion of CSIM in seeking best execution. When aggregating, CSIM may, consistent with its policies and procedures and fiduciary duties, include proprietary and/or employee accounts in an aggregated order. CSIM may exclude from aggregation those client accounts that have relevant restrictions or client activity (e.g., withdrawals pending). In addition, certain securities in client accounts may at times be executed through aggregation, but may not be aggregated at CSIM's discretion (e.g., individual bonds).

For Windhaven Strategies accounts, nearly all trades are aggregated as part of one or more blocks. CSIM may decide either to send the blocks to the client's custodian for execution or trade away the block to an executing broker as described further below. The method of execution will depend on a variety of factors and will be at the discretion of CSIM in seeking best execution.

For all client accounts, trade orders that can be only partially filled are generally allocated on a pro-rata basis or allocated on some other basis consistent with the goal of giving all clients equitable opportunities over time. CSIM could elect to execute trades in a single aggregated trade over multiple days due to volume, liquidity, or other factors. This could include an aggregated trade that is executed over multiple days, where at the end of each day, whatever portion of the trade has been executed is allocated to client accounts. Client accounts will receive the average price

for those aggregated trades allocated to their account(s) at the end of each day of the trade. There can be some variations in allocations based on account size and security price due to full share allocation methodology. In some cases, CSIM could execute a trade order at the same time it is executing a different trade order for the same security, with the same or a different broker, to meet account or strategy-specific requirements, in which case the two trades would be treated as distinct trades and may not be subject to pro rata allocation. These independent orders could also interact in the secondary market.

When opportunities are limited (collectively, "limited opportunities"), CSIM will generally consider the needs of clients across programs. When it is not practicable to allocate an opportunity across all eligible accounts, CSIM uses various methods to give all accounts using the same trading strategy equitable opportunities for allocation over time. This would result in a limited opportunity being allocated to only some of the eligible accounts.

### **Aggregation and Allocation of Securities Transactions – Wasmer Schroeder Strategies**

For the Wasmer Schroeder Strategies, CSIM will execute block trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow CSIM to execute trades in a timelier, more equitable manner, at an average price. CSIM will typically aggregate trades among clients whose accounts can be traded at a given broker. Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with CSIM, or CSIM's order allocation policy. CSIM must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account. The portfolio manager or trader must reasonably believe that the order aggregation will benefit, and will enable CSIM to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for the execution. Best execution includes the duty to seek the best quality of execution as well as the best price. If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day will be allocated. Adjustments to this allocation may be made to client accounts in accordance with the initial order ticket or other written

statement of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd-lot amounts of securities held in any client account, or to avoid excessive ticket charges in smaller accounts according to the firm allocation policy. Allocations are determined by strategy and client type. Considerations for allocation in municipal accounts include, but are not limited to, positive impact security/portfolio designation, client state of residence, cash as a percentage of assets, lot size and structural needs. For taxable accounts considerations include, but are not limited to, positive impact security/portfolio designation, cash as a percentage of assets, lot size, asset class needs, duration and ratings needs. Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order, and must share in the transaction costs on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the number of securities traded for each client. No client or account will be unfairly favored over another.

### **Trade Away**

For certain SMA Strategies including Selective Portfolios, ThomasPartners Strategies, UMP Program, Wasmer Schroeder Strategies, and Windhaven Strategies, CSIM places a significant amount of trades with selected broker-dealers other than the Wrap Fee Program sponsor or client selected broker/custodian to the extent that such a trade ("trade away") will, in CSIM's opinion, achieve best execution in aggregate over time. Certain Wrap Fee Program sponsors or client selected brokers/custodians may have restrictions on accommodating trading away which can affect execution quality.

### **Program Fees**

For Wrap Fee Program clients, including those in the Schwab Managed Account Programs, and Broker/Custodian-Related clients, the fee does not cover brokerage fees charged by the trade away brokers, which are fees that are in addition to any wrap or broker/custodian fees. This is because clients participating in a Wrap Fee Program pay a single, all-inclusive fee to cover any brokerage fees on trades executed by the sponsor, but the wrap fee does not cover brokerage fees charged by other brokers. The wrap fee or all-inclusive fee described above will not be reduced or offset by these brokerage fees. Instead, any additional brokerage fees will reduce the overall return of a Wrap Fee Program client's account. Regardless of embedded brokerage fees, it is the responsibility of CSIM to determine whether the Wrap Fee Program sponsor or trade away broker can provide best overall execution of any given trade. For

trades away, brokerage fees may be included in the price of the security and may not be shown separately on a confirmation or statement.

For the Schwab Managed Account Programs, the wrap fee covers commissions or other execution charges for equity trades routed by Schwab to other brokers. However, the wrap fee does not cover commissions or execution charges that may be assessed for trades that CSIM trades away from Schwab. Such commissions may be in addition to or included in the price you receive for your transactions, but in either case are in addition to, and will not reduce or offset, the wrap fee. Instead, they will reduce the overall return of your account. Schwab incurs costs in processing trades that CSIM executes through other broker-dealers, which are covered by the wrap fee. Because Schwab Managed Account Program fees cover execution through Schwab, CSIM may have an incentive to execute most transactions in equity securities through Schwab.

For the SMP Program, brokerage fees for any trades where Schwab uses another broker-dealer may be included in the price of the security and are not shown separately on a client's trade confirmation or account statements. Schwab does not charge a commission itself or receive the third-party executing broker-dealer's fee or commission. The SMP Program fee will not be reduced or offset by third-party brokerage fees. Instead, any brokerage fees will reduce the overall return of a client's account.

For the SIP Program, in transactions where Schwab uses another broker-dealer acting as principal, the other broker-dealer typically accepts the risk of market price and liquidity fluctuations of executing the transactions. The broker-dealer adds a brokerage fee to compensate for this risk. In transactions where Schwab uses another broker-dealer acting as an agent, the other broker-dealer may charge a brokerage fee. Brokerage fees for any trades where Schwab uses another broker-dealer acting as either principal or agent are not shown separately on a client's trade confirmation or account statements. Schwab does not charge a commission itself or receive the third-party broker-dealer's fee or commission. Any brokerage fees will reduce the overall return of a client's account.

Schwab receives remuneration, such as liquidity or order flow rebates, from a market or firm to which some orders are routed, but its trading practices are designed to achieve best execution. Clients will not be compensated or reimbursed for such third-party brokerage fees. Instead, any brokerage fees will reduce the overall return of a client's account.

### **Trade Rotation**

CSIM has a trade rotation process that it uses among client accounts within a single strategy or program

or across different strategies or programs that seek to prevent any client from being systematically disadvantaged. It is possible that certain client accounts within a particular strategy or program or across the different strategies or programs trade first or last on a regular basis due to the investment process and trading approach employed by CSIM. Trades done on the same day or on different days are not guaranteed to receive the same trading price. CSIM will review its rotation procedures at least annually to confirm that they are adequate to prevent any client from being systematically disadvantaged.

### **Trade Errors**

CSIM maintains policies and procedures that address the identification and correction of trade errors. On those occasions when such an error does occur, CSIM will use reasonable efforts to identify and resolve errors as promptly as possible. CSIM will address and resolve errors on a case-by-case basis, in its discretion, based on the facts and circumstances. CSIM is not obligated to follow any single method of resolving errors but will seek to treat all clients fairly in the resolution of trade errors.

### **Model Portfolios**

In non-discretionary model portfolio arrangements with unaffiliated Sponsors, CSIM is ultimately not responsible for determining which securities to buy or sell and is not responsible for executing such trades. For Wasmer Schroeder Strategies model portfolio arrangements CSIM is responsible for determining which securities to buy or sell and is not responsible for executing such trades. CSIM also provides non-discretionary model portfolios to its affiliate, CSTC. CSTC is responsible for determining the models to be used for trust assets and has the ultimate decision making and discretionary responsibility for the determination of which securities are to be purchased and sold for their account and effect all security transactions in connection with such determinations. CSIM does not have any transparency into which securities are ultimately purchased or sold or the ending portfolio weighting of the CSTC client accounts. CSIM also provides non-discretionary model portfolios to its affiliate Schwab for its platform. CSIM is not responsible for determining which securities to buy or sell for those who invest in model portfolios provided to Schwab. The unaffiliated Sponsors may be buying or selling the same securities that CSIM is buying or selling on behalf of its own clients or its affiliates' clients. As a result, these unaffiliated Sponsors may be in the market at or near the same time as CSIM, which may have an adverse impact on the price CSIM is able to obtain for certain securities for its own clients or its affiliates' clients and may likewise have an adverse impact on the price such unaffiliated Sponsor is able to obtain for such securities.

CSIM utilizes a trade rotation procedure that seeks to disseminate changes to its securities recommendations, as well as securities in model portfolios to CSIM clients, CSTC, Schwab and unaffiliated Sponsors in a fair and equitable manner. CSIM can communicate model changes to CSTC, Schwab and unaffiliated Sponsors in a variety of ways depending on the investment strategy, the advisory program parameters and the advisory agreements. For certain investment strategies, CSIM can provide notification of model portfolio changes on a delayed basis as compared to placing trade orders for CSIM's clients. As a result, certain unaffiliated Sponsors, Schwab or CSTC can receive notification of model portfolio changes after CSIM has executed at least a portion of trade orders on behalf of its clients. It should be noted that certain portfolio securities will overlap among investment strategies, including those used by CSTC and unaffiliated Sponsors, and orders for such securities may be placed by the unaffiliated Sponsors' clients concurrently or at a different time than orders placed by CSIM or with the same brokers utilized by CSIM.

### **Item 13 – Review of Accounts**

CSIM periodically reviews client accounts, including Registered Funds, utilizing product-specific review processes. Accordingly, account review may differ across client and product types. CSIM's portfolio managers are generally responsible for the daily management and review of the client accounts under their supervision. Such reviews may examine compliance with client's investment objectives and account guidelines, account performance and CSIM's current investment process and practices, as applicable. Below are more detailed descriptions of account reviews conducted by CSIM.

### **Collective Investment Trusts**

A team of investment professionals are responsible for overseeing the sub-advisers to and underlying pooled investment vehicles held by collective investment trusts, which are maintained and advised by CSTB. The team monitors each collective investment trust for asset allocation, sub-adviser and underlying pooled investment vehicles performance, and sub-adviser exposure as compared to the fund's guidelines on a daily basis, with additional meetings or reviews on monthly basis. CSIM meets with CSTB at least quarterly to review sub-adviser performance, provide updates relating to general economic conditions and matters related to the collective investment trusts and to recommend changes when deemed appropriate. CSIM also performs reviews on an as needed basis, including review of a new asset class or sub-adviser searches.

## **Selective Portfolios, SMP Program, SPI and UMP Program**

CSIM's portfolio managers review, on an ongoing basis, the performance of Selective Portfolios, SMP Program, SPI and UMP Program investment strategies against their applicable benchmarks. Schwab contacts clients participating in the SMP Program, SPI and UMP program and will contact clients participating in the Selective Portfolios on an ongoing basis to determine whether there have been any changes in their financial situation or investment objectives and whether clients wish to impose any reasonable restrictions on the management of their accounts or reasonably modify existing restrictions. Schwab communicates the information obtained from clients to CSIM as necessary for the management of the account.

## **SIP Program and SIP Premium Program**

CSIM's portfolio managers review, at least quarterly, the performance of the SIP Program investment strategies. Schwab contacts clients participating in the SIP Program at least annually via electronic channels to determine whether there have been any changes in their financial situation or investment objectives and whether clients wish to impose any reasonable restrictions on the management of their accounts or reasonably modify existing restrictions. Schwab communicates the information obtained from clients to CSIM as necessary for the management of the account. Schwab Financial Planners contact clients participating in the SIP Premium Program generally on an annual basis, but which occur with varying frequency, depending on the client's needs. Clients may update their financial plans online at any time.

## **ThomasPartners Strategies**

Direct Client accounts are reviewed on an ongoing basis. The reviews are performed by Relationship Managers and/or the Client Service team members and generally focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. For clients who establish and maintain their Primary Advisor, sub-adviser or Wrap Fee Program sponsor, account reviews would typically be performed by personnel of the Primary Advisor, sub-adviser or Wrap Fee Program sponsor. Reviews of accounts custodied at Schwab may be assisted by Schwab personnel, as applicable. Direct Clients generally receive quarterly written reports, which include the client's investment positions, the performance of their ThomasPartners Strategies account(s), and

quarterly newsletter. For certain sub-advised relationships, CSIM may send client statements and other regulatory material to the primary adviser in the client relationship or directly to the client.

## **Wasmer Schroeder Strategies**

Direct Client accounts are reviewed on an ongoing basis. The reviews are performed by Relationship Managers and/or the Client Service team members and generally focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. For clients who establish and maintain their relationship through their Primary Advisor, sub-adviser or Wrap Fee Program sponsor, account reviews would typically be performed by personnel of the Primary Advisor, sub-adviser or Wrap Fee Program sponsor. Reviews of accounts custodied at Schwab may be assisted by Schwab personnel, as applicable. Direct Clients generally receive quarterly written reports, which include the client's investment positions and the performance of their Wasmer Schroeder Strategies account(s). This is in addition to the monthly statements from custodians and confirmations of transactions that clients receive from various broker-dealers.

## **Windhaven Strategies**

Direct Client accounts are reviewed on an ongoing basis. The reviews are performed by Relationship Managers and/or the Client Service team members and generally focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. For clients who establish and maintain their relationship through their Primary Advisor, sub-adviser or Wrap Fee Program sponsor, account reviews would typically be performed by personnel of the Primary Advisor, sub-adviser or Wrap Fee Program sponsor. Reviews of accounts custodied at Schwab may be assisted by Schwab personnel. Direct Clients generally receive quarterly written reports, which include the client's investment positions, the performance of their Windhaven Strategies account(s), and quarterly newsletter.

## **Item 14 – Client Referrals and Other Compensation**

Certain employees of CSIM's affiliates are compensated based on net sales in Registered Funds managed by CSIM, the SIP Program, SIP Premium Program, SPI, ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies. Consequently,

these employees may have an incentive to recommend CSIM advised Registered Funds, the SIP Program, SIP Premium Program, SPI, ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies over other types of accounts.

CSIM does not make payments to its representatives or those of its affiliates for referring clients to the Selective Portfolios, SIP Program, SIP Premium Program, SMP Program and UMP Program. Schwab makes payments to its representatives for referring clients to the Selective Portfolios, SIP Program, SIP Premium Program, SMP Program and UMP Program, as described in a separate Schwab Managed Portfolios disclosure brochure, Schwab Managed Account™ disclosure brochure or Schwab Intelligent Portfolios Solutions disclosure brochure, as applicable.

CSIM may recommend that ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies clients establish brokerage accounts with Schwab, an affiliate registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts.

Schwab provides CSIM, its affiliate, with access to its institutional trading and operations services, which are typically not available to Schwab clients. Schwab's services include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to CSIM other products and services that benefit CSIM but may not benefit clients' accounts. Some of these other products and services assist CSIM in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information, and other market data; facilitate payment of CSIM's fees from its clients' accounts in the ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies; and assist with back-office support, recordkeeping, and client reporting. Many of these services generally may be used to service all or a substantial number of SMP Program, ThomasPartners Strategies, UMP Program, Wasmer Schroeder Strategies and Windhaven Strategies client accounts, including accounts not maintained at Schwab.

Schwab may also provide CSIM with other services intended to help CSIM manage and further develop its business. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange,

and/or pay for these types of services to CSIM by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to CSIM.

### **Other Broker/Custodian-Related Programs**

For certain SMA Strategies, CSIM participates in a number of Broker/ Custodian-Related Programs sponsored by unaffiliated firms. These Broker/ Custodian-Related Programs and their affiliates provide CSIM with certain economic benefits and access to products and services not typically available to retail clients as a result of CSIM's participation in their programs. These benefits may include the following products and services:

- access to client account data (such as program client statements and trade confirmations);
- research, pricing and other market data;
- equity trade fee waivers;
- consulting services;
- access to a trading desk serving program clients;
- facilitation of trade execution and access to block trading (which provides the ability to bundle securities transactions for execution and then allocate the appropriate shares to program client accounts);
- the ability to have advisory fees deducted directly from program client accounts;
- access to an electronic communications network for client order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers;
- assistance with back-office functions, recordkeeping, and program client reporting;
- discounts on compliance, marketing, research, technology, and practice management products;
- compliance, legal and business consulting; publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers

Some of the products and services made available by these custodians through their program benefit program clients; some products and services may benefit CSIM but not the clients. These products or services may assist CSIM in managing and administering client accounts, including accounts not maintained at the custodian. As part of its fiduciary duties to clients, CSIM strives at all times to put the interests of its clients first.

These benefits and services may be useful for all client accounts. Although we recommend that clients establish accounts with specific custodians, it is the client's decision to determine the custodian to custody

their assets. As a result of receiving benefits and such services for no additional cost, we may have an incentive to continue to use or expand the use of the custodians' services. We examined this potential conflict of interest when we chose to enter into the relationships and periodically review such conflicts and have determined that these arrangements are in the best interests of CSIM's clients and satisfy our client obligations, including our duty to seek best execution.

### **Client Referrals from Solicitors**

CSIM may contract with independent solicitors (also known as promoters) and its affiliate, Schwab (and/or Schwab affiliates), to obtain new ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies clients. Client fees are generally not higher than CSIM's standard Wasmer Schroeder Strategies' fees or Windhaven Strategies fees because of payments to a solicitor. CSIM currently has two arrangements where terminated solicitors are paid an ongoing fee for client referrals, one for ThomasPartners Strategies and one for Wasmer Schroeder Strategies. No new clients are referred under these terminated solicitation arrangements. For one solicitor arrangement, client fees in the majority of these accounts are higher than the ThomasPartners Strategy standard fee because of payments to this solicitor.

Some solicitors may require CSIM to meet certain minimum participation criteria, or may select CSIM as a result of its other business relationships with the solicitor and its affiliates. As a result, CSIM may have a conflict of interest in using or recommending the solicitor or its affiliates to provide services such as brokerage and custody to its advisory clients.

### **Fidelity Wealth Advisor Solutions**

CSIM participates in the Fidelity Wealth Advisor Solutions<sup>®</sup> program (the "WAS Program"), through which CSIM receives Wasmer Schroeder Strategies referrals from Fidelity Personal and Workplace Advisors LLC ("FPWA"), a registered investment adviser and indirect wholly owned subsidiary of FMR LLC, the parent company of Fidelity Investments. CSIM is independent and not affiliated with FPWA or FMR LLC. FPWA does not supervise or control CSIM, and FPWA has no responsibility or oversight of CSIM's provision of Wasmer Schroeder Strategies portfolio management or other advisory services. Currently, CSIM does not receive any new referrals in the program. CSIM continues to pay referral fees to FPWA for referrals previously received based on CSIM's assets under management attributable to each client referred by FPWA or members of each client's household. These referral fees are paid by CSIM and not the client.

CSIM also receives ThomasPartners Strategy referrals through the WAS Program from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC. CSIM is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control CSIM, and SAI has no responsibility or oversight of CSIM's provision of ThomasPartners Strategies portfolio management or other advisory services. There are two versions of this program, referral fee based and non-referral fee based. Currently, CSIM has no ThomasPartners Strategies clients in the referral fee-based program and does not receive any new referrals in either program.

### **Item 15 – Custody**

With respect to the Registered Funds and collective investment trusts, CSIM generally does not maintain physical custody of its clients' assets. Client assets are typically held by a qualified custodian pursuant to a separate custody agreement.

Clients use Schwab as custodian for their Selective Portfolios, SMP Program, SIP Program, SIP Premium Program, SPI and UMP Program accounts. Schwab, on at least a quarterly basis, will send clients account statements detailing account positions and activities during the preceding period. Clients should review these statements carefully.

For those ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies clients that have selected Schwab as custodian for their account, Schwab, on at least a quarterly basis, will send client account statements detailing account positions and activities during the preceding period. A portion of ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies client accounts are held in custody by unaffiliated broker-dealers or banks. These unaffiliated broker-dealers or banks will also send client account statements on at least a quarterly basis. ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies clients should carefully review these statements, and should compare these statements to any account information provided by CSIM, as the information provided in CSIM's quarterly reports for Direct Clients may vary based on accounting procedures, reporting dates, or valuation methodologies. ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies clients may elect to custody their accounts at any custodian of their choosing, subject to the acceptance of CSIM. However, the selection of a custodian may or may not put a client at a disadvantage for getting best execution for their trades. CSIM may directly deduct advisory fees from ThomasPartners Strategies, Wasmer Schroeder Strategies and Windhaven Strategies client accounts



based on the specific arrangement with each client. As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period. Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

## **Item 16 – Investment Discretion**

CSIM has investment discretion over the Registered Funds pursuant to investment management/ advisory agreements between the Registered Funds and CSIM. As described in the Advisory Business section, CSIM manages the Registered Funds in accordance with their respective prospectuses and statements of additional information. The Registered Funds' boards of trustees and applicable law may also place additional restrictions on CSIM's investment discretion.

When clients choose the SMA Strategies they sign the custodian's applicable new account paperwork giving CSIM authorization to make trades in their account. This investment management discretion is limited to the purchase and sale of securities and investment of cash, and does not include discretion for distributions of cash or securities (except for limited grants of authority to facilitate withdrawal of money and direct payments to third parties according to clients' instructions). Clients may impose reasonable restrictions on the management of their account, subject to the acceptance of CSIM. Clients in SPI, ThomasPartners Strategies and Windhaven Strategies have the ability to restrict up to three ticker symbols in total. Certain clients in SPI can also impose industry restrictions and restrict more than three ticker symbols. Direct Clients have the ability to restrict more than three ticker symbol as well, subject to the acceptance of CSIM.

Clients invested in the SIP Program may restrict up to three ETFs (limited to one per asset class) in each account. ETFs designated for restriction by clients will be replaced with alternatives selected by CSIM, unless an alternative ETF is not available, in which case the client will forego the opportunity for tax-loss harvesting from this asset class.

Clients invested in SMP-ETF, Selective Portfolios Core ETF and Selective Portfolios Opportunistic, may restrict up to three ETFs in each account. Clients invested in SMP-MF and Selective Portfolios Core Mutual Fund may restrict up to three mutual funds

in each account. Mutual funds and ETFs designated for restriction by clients will be replaced with alternatives selected by CSIM.

Clients invested in the UMP Program may restrict up to three ticker symbols in total (mutual funds and ETFs combined) in each UMP Program Account and up to five individual equities in each UMP Custom Account with an equity style manager. Mutual funds and ETFs designated for restriction by clients will be replaced with alternatives selected by CSIM.

Accounts with investment restrictions may perform differently than accounts without restrictions; performance may be lower or higher for accounts with restrictions than for those without restrictions. The performance of your account may be different than CSIM's performance composite if your account has restrictions. In addition, your account's performance may be different than its relevant composite due to client generated activity such as fund withdrawal or deposit requests. CSIM reserves the right to not accept certain restrictions. After an account is opened, should a client make changes to their imposed restrictions, and CSIM believes it no longer can manage the client's account effectively, CSIM may elect to terminate the account.

Investments will not exceed the client's funds in the account and a margin balance will not be maintained, unless allowed by CSIM.

Subject to meeting minimum security gain/loss thresholds and CSIM's approval, CSIM can accommodate client requested tax gain/loss harvesting for certain SMA Strategies. CSIM reserves the right to decline the request. See the "Tax and Tax Gain/Loss Harvesting Risks" section for more details on the risks associated with client requested tax gain/loss harvesting for these SMA Strategies.

## **Item 17 – Voting Client Securities**

The following is a summary of CSIM's Proxy Voting Policy (the "Proxy Policy") concerning proxies voted by CSIM on behalf of each investment advisory client who delegates voting authority to CSIM ("Delegating Client"). The Proxy Policy may be changed as necessary to comply with regulatory requirements and internal policies and procedures. An internal proxy committee (the "Proxy Committee") exercises and documents CSIM's responsibility with regard to voting of client proxies, including the review and approval of the Proxy Policy.

To assist CSIM and the overall proxy voting process, CSIM has elected to retain an unaffiliated third party proxy voting service as an expert in the proxy voting and corporate governance area (the "Service"). The services provided by the Service include in-depth research, global issuer analysis and voting recommendations, as well as vote execution,

reporting and record keeping. CSIM may retain additional experts in the proxy voting and corporate governance area in the future.

The Proxy Committee has the ultimate responsibility for developing the Proxy Policy to determine how to vote the shares. CSIM's Investment Stewardship Team has the primary responsibility to oversee that voting is carried out consistent with the Proxy Policy. The Investment Stewardship Team also conducts research into proxy issues and carries out engagement activities with companies. The Proxy Committee receives reports from the Investment Stewardship Team on these activities on a regular basis.

As a leading asset manager, it is CSIM's responsibility to use its proxy votes to encourage transparency, corporate governance structures and the management of environmental and social issues that it believes protect and promote shareholder value. CSIM takes a long-term, measured approach to investment stewardship. CSIM's client-first philosophy drives all of its efforts, including its approach to decision making. In the investment stewardship context, that unfolds through CSIM's efforts to appropriately manage risk by encouraging transparency and focusing on corporate governance structures that will help protect and promote shareholder value. CSIM also recognizes that companies can conduct themselves in ways that have important environmental and social consequences. Therefore, CSIM's focus on maximizing long-term shareholder value includes consideration of potential environmental and social impacts that we believe are relevant to individual companies. In general, CSIM believes corporate directors, as the elected representatives of all shareholders, are best positioned to oversee the management of their companies. Accordingly, CSIM typically supports a board of directors' and management's recommendations on proxy matters. However, CSIM will vote against management's recommendations when it believes doing so will protect or promote long-term shareholder value.

CSIM invests on behalf of its clients in companies domiciled all over the world. Since corporate governance standards and best practices differ by country and jurisdiction, the market context is taken into account in the analysis of proposals. Furthermore, there are instances where CSIM may determine that voting is not in the best interests of its Delegating Clients (typically due to costs or to trading restrictions) and will refrain from submitting votes.

As part of CSIM's regular proxy guideline development and updating process, the Proxy Committee reviews the Service's written proxy voting guidelines (the "Service's Proxy Guidelines") with input from the Investment Stewardship Team and evaluates them in light of the long-term best interests of shareholders. CSIM utilizes its own Proxy Voting Guidelines to

vote, which include using discretion when deciding how to vote on a number of different issues. For U.S. companies, contested director elections, "vote no" campaigns, mergers and acquisitions, some executive compensation and election of director proposals, and many shareholder proposals, including those requesting additional environmental, social and political disclosures, are voted on a case-by-case basis by the Investment Stewardship Team.

CSIM has adopted proxy voting principles addressing common proxy voting issues including: election of directors, ratification of auditors, contested director elections, classified boards, majority/cumulative voting, proxy access, separation of chair and CEO role, independent chair, executive compensation and frequency, equity compensation plans, employee stock purchase plans, re-price/ exchange option plans, shareholder rights plans, right to call special meetings, right to act by written consent, supermajority voting, increase in authorized common shares, preferred shares, mergers and acquisitions, and environmental and social proposals (including climate change and corporate political activity).

CSIM maintains the following practices that seek to prevent undue influence on its proxy voting activity. Such influence might arise from any relationship between the company holding the proxy (or any shareholder or board member of the company) and CSIM, CSIM's affiliates, a Registered Fund managed by CSIM or its affiliate, a client or client's affiliate, or a CSIM employee.

With respect to proxies of an underlying Registered Fund managed by CSIM, the Investment Stewardship Team will ensure that such proxies are "echo voted", unless otherwise required by law. When required by law or applicable exemptive order, the Investment Stewardship Team will also ensure the "echo voting" of an unaffiliated mutual fund or exchange traded fund. In addition, with respect to holdings of CSCorp., the Investment Stewardship Team will ensure such proxies are echo-voted, unless otherwise required by law.

Where the Proxy Committee has delegated an item to the Investment Stewardship Team, CSIM has taken certain steps to mitigate perceived or potential conflicts of interest, including, but not limited to, the following: (i) maintaining a reporting structure that separates employees with voting authority from those with sales or business relationship authority; (ii) reporting of potential conflicts to the Proxy Committee to review the conflict and provide final vote determination; and (iii) defaulting to the standard CSIM Proxy Policy.

In all other cases, proxy issues that present material conflicts of interest between CSIM and/or any of its affiliates, and CSIM's clients, will be delegated to

the Service to be voted in accordance with CSIM's proxy voting guidelines which are set each year based on governance criteria and not influenced by any individual issuer or ballot item.

Voting proxies with respect to shares of foreign securities may involve significantly greater effort and corresponding cost than voting proxies with respect to domestic securities due to the variety of regulatory schemes and corporate practices in foreign countries with respect to proxy voting. In consideration of the foregoing issues, the Service uses its best efforts to vote foreign proxies. As part of its ongoing oversight, the Proxy Committee will monitor the voting of foreign proxies to determine whether all reasonable steps are taken to vote foreign proxies. If the Proxy Committee determines that the cost associated with the attempt to vote outweighs the potential benefits Delegating Clients may derive from voting, the Proxy Committee may decide not to attempt to vote. In addition, certain foreign countries impose restrictions on the sale of securities for a period of time before and/or after the shareholder meeting. To avoid these trading restrictions, the Proxy Committee instructs the Service not to vote such foreign proxies (share-blocking).

Where CSIM has delegated day-to-day investment management responsibilities for a client account to a sub-adviser, CSIM may (but generally does not) delegate proxy voting responsibility to such sub-adviser. Each sub-adviser to whom proxy voting responsibility has been delegated will be required to review all proxy solicitation material and to make voting decisions in the best interest of each investment company and its shareholders, or other client associated with the securities it has been allocated. Each sub-adviser to whom proxy voting has been delegated must inform CSIM of its voting decisions to allow CSIM to implement the votes or in the case of shared voting responsibility, potentially override the sub-adviser's vote recommendation. Prior to delegating the proxy voting responsibility, CSIM will review each sub-adviser's proxy voting policy to determine whether it believes that each sub-adviser's proxy voting policy is generally consistent with the maximization of the value of CSIM's clients' investments by protecting the long term best interest of a company's shareholders.

Additional information about CSIM's proxy voting practices with respect to the Registered Funds is included in their respective prospectuses and statements of additional information. A client may obtain a copy of CSIM's Proxy Policy, or information regarding how his or her securities were voted, by calling CSIM at (877) 824-5615 for the Registered Funds and (800) 650-9744 for the SMA Strategies.

Delegating Clients may not direct voting in a particular solicitation. Clients in the SMA Strategies wishing to retain the ability to vote proxies must submit a separate form to their custodian.

## Item 18 – Financial Information

CSIM does not require nor solicit prepayment of investment advisory fees in excess of \$1,200 more than six months in advance of services rendered from its clients. CSIM is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has CSIM been the subject of a bankruptcy petition at any time during the past ten years.



March 30, 2024

# Brochure Supplement

## ThomasPartners<sup>®</sup> Strategies

**The following brochures supplement the  
Charles Schwab Investment Management, Inc. Disclosure Brochure  
and contain information about individuals  
within Charles Schwab Investment Management, Inc.**

Charles Schwab Investment Management, Inc.  
211 Main Street  
San Francisco, CA 94105  
1-877-824-5615

## **Kelly Johnson, Jr., CFA<sup>®</sup>, CAIA<sup>®</sup>**

Born 1961

Charles Schwab Investment Management, Inc.

Portfolio Manager - Fixed Income

27201 Puerta Real, Suite #100

Mission Viejo, CA 92691

+1 949-375-7336

kelly.johnson@schwab.com

This brochure supplement provides information about Kelly Johnson that supplements the Charles Schwab Investment Management, Inc. ("CSIM") disclosure brochure. You should have received a copy of that brochure. Please contact CSIM at 1-877-824-5615 if you did not receive CSIM's brochure or if you have any questions about the contents of this supplement.

### **Educational Background and Business Experience**

#### **Education**

##### **Post Secondary Education – Completed**

Date degree conferred: 06/2001  
Dartmouth College Tuck School of Business  
Hanover, NH  
MBA

Date degree conferred: 06/1994  
Strayer University  
Washington, DC  
BS - Accounting

#### **Professional Designations**

CFA Institute  
Chartered Financial Analyst

To obtain the Chartered Financial Analyst<sup>®</sup> certification, candidates must meet requirements in the areas of education, examination and professional conduct. The education requirement can be met with one of the following: a bachelor's (or equivalent) degree; four years of qualified, professional work experience; or a combination of college and work experience that totals at least four years. Candidates must complete a graduate-level self-study program that includes curricula in the areas of ethics and professional standards, investment tools, asset classes, portfolio management and wealth planning, and they must successfully pass three course exams. Chartered Financial Analyst charter holders agree to abide by the CFA Institute Code of Ethics and Standards of Professional Conduct and its Candidate Responsibility Statement.

Chartered Alternative Investment Analyst (CAIA) Association  
Chartered Alternative Investment Analyst

The Chartered Alternative Investment Analyst<sup>®</sup> (CAIA) designation is conferred by the CAIA Association. The CAIA Association is the globally recognized credential for professionals managing, analyzing, distributing, or regulated alternative investments. An candidate seeking to become a CAIA charter holder must have at least one year of professional experience, a U.S. bachelor's degree and must pass two levels of curriculum that include topics ranging from qualitative analysis, trading theories of alternative investments, to indexation and benchmarking. CAIA charter holders agree to abide by the CAIA Member Agreement and Code of Ethics.

#### **Business Experience**

The following section displays the business experience of the individual for at least the past 5 years.

Dates: 03/2021 – Present  
Charles Schwab Investment Management, Inc.  
Portfolio Manager – Fixed Income

Dates: 12/2020 – 03/2021

Charles Schwab Investment Management, Inc.  
Director – Client Portfolio Strategist

Dates: 02/2020 – 12/2020

Charles Schwab & Co., Inc.  
Registered Representative

Dates: 01/2018 – 12/2020

Charles Schwab Investment Advisory, Inc.  
Investment Adviser Representative

### **Disciplinary Information**

This section includes information about legal or disciplinary events reported about this individual, such as formal investigations and disciplinary actions initiated by regulators, certain criminal charges, and/or convictions.

This individual has no legal or disciplinary events that are required to be disclosed.

### **Other Business Activities – Investment Related**

This individual has no other investment related business or occupation that is required to be disclosed.

### **Other Business Activities – Other**

The firm allows employees to engage in certain other outside activities. If the individual is currently involved in any outside business activities that represent 10% or more of his or her time and income, the activities are displayed below:

There are no other outside business activities to disclose.

### **Additional Compensation**

This individual does not receive any economic benefit for providing advisory services, other than a regular salary and bonus.

### **Supervision**

The portfolio management team reports to the Chief Investment Officers of CSIM. Complementing the formal departmental and organizational lines of reporting within CSIM, CSIM has established several key advisory oversight/governance committees in an ongoing effort to improve risk management and the supervision of CSIM investment advisory and administration functions. On a day-to-day basis, CSIM compliance and portfolio supervisory personnel review reports generated by third-party service providers to monitor for deviations from certain regulatory and internal limits set by CSIM with respect to any particular account. The contact information for Kelly Johnson, Jr.'s supervisor is: William P. McMahon, Jr., Managing Director, Chief Investment Officer, +1 781-431-1430.

## **William P. McMahon, Jr., CFA®**

Born 1972

Charles Schwab Investment Management, Inc.

Chief Investment Officer – Active Strategies

One International Place, 33rd Floor

Boston, MA 02110

+1 781-431-1430

Bill.McMahon@schwab.com

This brochure supplement provides information about William P. McMahon that supplements the Charles Schwab Investment Management, Inc. (“CSIM”) disclosure brochure. You should have received a copy of that brochure. Please contact CSIM at 1-877-824-5615 if you did not receive CSIM’s brochure or if you have any questions about the contents of this supplement.

### **Educational Background and Business Experience**

#### **Education**

##### **Post Secondary Education – Completed**

Date degree conferred: 1994

Stonehill College

Easton, MA

Bachelor of Arts, Economics

Date degree conferred: 2001

McCallum School of Business

Bentley College

Waltham, MA

Master of Business Administration

#### **Professional Designations**

CFA Institute

Chartered Financial Analyst

To obtain the Chartered Financial Analyst® certification, candidates must meet requirements in the areas of education, examination and professional conduct. The education requirement can be met with one of the following: a bachelor’s (or equivalent) degree; four years of qualified, professional work experience; or a combination of college and work experience that totals at least four years. Candidates must complete a graduate-level self-study program that includes curricula in the areas of ethics and professional standards, investment tools, asset classes, portfolio management and wealth planning, and they must successfully pass three course exams. Chartered Financial Analyst charter holders agree to abide by the CFA Institute Code of Ethics and Standards of Professional Conduct and its Candidate Responsibility Statement.

#### **Business Experience**

The following section displays the business experience of the individual for at least the past 5 years.

Dates: 11/2023 – Present

Charles Schwab Investment Management, Inc.

Chief Investment Officer – Active Strategies

Dates: 01/2020 – 11/2023

Charles Schwab Investment Management, Inc.

Chief Investment Officer – Active Equity Strategies

Dates: 04/2018 – 12/2019

Charles Schwab Investment Advisory, Inc.

Chief Investment Officer – ThomasPartners Strategies

#### **Disciplinary Information**

This section includes information about legal or disciplinary events reported about this individual, such as formal investigations and disciplinary actions initiated by regulators, certain criminal charges, and/or convictions.

This individual has no legal or disciplinary events that are required to be disclosed.

#### **Other Business Activities – Investment Related**

This individual has no other investment related business or occupation that is required to be disclosed.

#### **Other Business Activities – Other**

The firm allows employees to engage in certain other outside activities. If the individual is currently involved in any outside business activities that represent 10% or more of his or her time and income, the activities are displayed below:

There are no other outside business activities to disclose.

#### **Additional Compensation**

This individual does not receive any economic benefit for providing advisory services, other than a regular salary and bonus.

#### **Supervision**

The portfolio management team reports to the Chief Investment Officers of CSIM. Complementing the formal departmental and organizational lines of reporting within CSIM, CSIM has established several key advisory oversight/governance committees in an ongoing effort to improve risk management and the supervision of CSIM investment advisory and administration functions. On a day-to-day basis, CSIM compliance and portfolio supervisory personnel review reports generated by third-party service providers to monitor for deviations from certain regulatory and internal limits set by CSIM with respect to any particular account.

The contact information for William P. McMahon, Jr.’s supervisor is: Omar Aguilar, Chief Executive Officer, President and Chief Investment Officer, +1 415-667-7718.

## James A. Serhant II, CFA®

Born 1973

Charles Schwab Investment Management, Inc.

Portfolio Manager

One International Place, 33rd Floor

Boston, MA 02110

+1 781-431-1430

Jim.Serhant@schwab.com

This brochure supplement provides information about James A. Serhant II that supplements the Charles Schwab Investment Management, Inc. ("CSIM") disclosure brochure. You should have received a copy of that brochure. Please contact CSIM at 1-877-824-5615 if you did not receive CSIM's brochure or if you have any questions about the contents of this supplement.

### Educational Background and Business Experience

#### Education

##### Post Secondary Education – Completed

Date degree conferred: 1995

Hamilton College

Clinton, NY

Bachelor of Art, Economics and English

#### Professional Designations

CFA Institute

Chartered Financial Analyst

To obtain the Chartered Financial Analyst® certification, candidates must meet requirements in the areas of education, examination and professional conduct. The education requirement can be met with one of the following: a bachelor's (or equivalent) degree; four years of qualified, professional work experience; or a combination of college and work experience that totals at least four years. Candidates must complete a graduate-level self-study program that includes curricula in the areas of ethics and professional standards, investment tools, asset classes, portfolio management and wealth planning, and they must successfully pass three course exams. Chartered Financial Analyst charter holders agree to abide by the CFA Institute Code of Ethics and Standards of Professional Conduct and its Candidate Responsibility Statement.

#### Business Experience

The following section displays the business experience of the individual for at least the past 5 years.

Dates: 01/2020 – Present

Charles Schwab Investment Management, Inc.

Senior Portfolio Manager – ThomasPartners Strategies

Dates: 04/2018 – 12/2019

Charles Schwab Investment Advisory, Inc.

Senior Portfolio Manager – ThomasPartners Strategies

#### Disciplinary Information

This section includes information about legal or disciplinary events reported about this individual, such as formal investigations and disciplinary actions initiated by regulators, certain criminal charges, and/or convictions.

This individual has no legal or disciplinary events that are required to be disclosed.

#### Other Business Activities – Investment Related

This individual has no other investment related business or occupation that is required to be disclosed.

#### Other Business Activities – Other

The firm allows employees to engage in certain other outside activities. If the individual is currently involved in any outside business activities that represent 10% or more of his or her time and income, the activities are displayed below:

There are no other outside business activities to disclose.

#### Additional Compensation

This individual does not receive any economic benefit for providing advisory services, other than a regular salary and bonus.

#### Supervision

The portfolio management team reports to the Chief Investment Officers of CSIM. Complementing the formal departmental and organizational lines of reporting within CSIM, CSIM has established several key advisory oversight/governance committees in an ongoing effort to improve risk management and the supervision of CSIM investment advisory and administration functions. On a day-to-day basis, CSIM compliance and portfolio supervisory personnel review reports generated by third-party service providers to monitor for deviations from certain regulatory and internal limits set by CSIM with respect to any particular account. The contact information for James A. Serhant II's supervisor is: William P. McMahon, Jr., Managing Director, Chief Investment Officer, +1 781-431-1430.

## FACTS

### WHAT DOES THE CHARLES SCHWAB CORPORATION DO WITH YOUR PERSONAL INFORMATION?

#### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

#### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and income
- account balances and transaction history
- investment experience and assets

#### How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons The Charles Schwab Corporation chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does The Charles Schwab Corporation share?	Can you limit this sharing?
<b>For our everyday business purposes—</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	YES	NO
<b>For our marketing purposes—</b> to offer our products and services to you	YES	NO
<b>For joint marketing with other financial companies</b>	NO	We don't share
<b>For our affiliates' everyday business purposes—</b> information about your transactions and experiences	YES	NO
<b>For our affiliates' everyday business purposes—</b> information about your creditworthiness	YES	YES
<b>For our affiliates to market to you</b>	YES	YES
<b>For nonaffiliates to market to you</b>	NO	We don't share

#### To limit our sharing

Call 1-877-812-1817 within the U.S. or +1-415-667-8400 from outside the U.S.—our menu will prompt you through your choices.

#### Please note:

If you are a *new* customer, we can begin sharing your information 30 days from the date we sent this notice. When you are *no longer* our customer, we continue to share your information as described in this notice. However, you can contact us at any time to limit our sharing.

#### Questions?

Call 1-877-812-1817 or 1-800-435-4000 or go to [schwab.com/privacy](https://schwab.com/privacy).



## Who we are

Who is providing this notice?	The Charles Schwab Corporation (also “Schwab”) and its affiliates. See list of affiliates below.
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## What we do

How does Schwab protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. To learn more about security at Schwab, please visit <a href="https://schwab.com/schwabsafe">schwab.com/schwabsafe</a> .
How does Schwab collect my personal information?	We collect your personal information, for example, when you: <ul style="list-style-type: none"> <li>· open an account or give us your income information</li> <li>· seek advice about your investments or tell us about your investment or retirement portfolio</li> <li>· make deposits or withdrawals from your account</li> </ul> We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can't I limit all sharing?	Federal law gives you the right to limit only: <ul style="list-style-type: none"> <li>· sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>· affiliates from using your information to market to you</li> <li>· sharing for nonaffiliates to market to you</li> </ul> State laws and individual companies may give you additional rights to limit sharing. See below for more on your rights under state law.
What happens when I limit sharing for an account I hold jointly with someone else?	Your choices will apply to everyone on your account.

## Definitions

Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. <ul style="list-style-type: none"> <li>· <i>Our affiliates include companies with a Charles Schwab (with the exception of Schwab Charitable™) or TD Ameritrade name; and nonfinancial companies such as Schwab Performance Technologies and Charles Schwab Media Productions Company.</i></li> </ul>
Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies. <ul style="list-style-type: none"> <li>· <i>The Charles Schwab Corporation does not share with nonaffiliates so they can market to you.</i></li> </ul>
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. <ul style="list-style-type: none"> <li>· <i>The Charles Schwab Corporation doesn't jointly market.</i></li> </ul>

## Other important information

Charles Schwab Bank, SSB, and Charles Schwab Premier Bank, SSB, are chartered under the laws of the State of Texas and by state law are subject to regulatory oversight by the Department of Savings and Mortgage Lending. Any consumer wishing to file a complaint against Charles Schwab Bank, SSB, or Charles Schwab Premier Bank, SSB, should contact the Department of Savings and Mortgage Lending through one of the means indicated below:

In Person or by Mail: 2601 North Lamar Boulevard, Suite 201, Austin, Texas 78705-4294; by Phone: 1-877-276-5550; by Fax: 1-512-936-2003; or through the Department's website at: [www.sml.texas.gov](http://www.sml.texas.gov).

**California residents:** Please go to [schwab.com/ccpa](https://schwab.com/ccpa) to learn more about our Privacy Notice for California Residents.

**Nevada residents:** Nevada law requires us to disclose that you may request to be placed on Schwab's internal “do not call” list at any time by calling 1-800-435-4000, and that we are providing this notice to you pursuant to state law. You may obtain further information by contacting the Nevada Attorney General, 555 E. Washington Ave., Suite 3900, Las Vegas, NV 89101; phone 1-702-486-3132; email [BCPINFO@ag.state.nv.us](mailto:BCPINFO@ag.state.nv.us).

**Vermont residents:** We will automatically limit sharing of your information.

To learn more about our Online Privacy and Tracking practices, please go to [schwab.com/online-privacy](https://schwab.com/online-privacy).

## PROXY VOTING POLICY AS OF MARCH 2024

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### I. INTRODUCTION

Charles Schwab Investment Management, Inc. (“CSIM”), as an investment adviser, is responsible for voting proxies with respect to the securities held in accounts of investment companies and other clients that have delegated the authority to vote proxies to CSIM. CSIM’s Proxy Committee exercises and documents CSIM’s responsibility with regard to voting of client proxies, including the review and approval of the Proxy Voting Policy (the “Proxy Policy”). CSIM’s Investment Stewardship Team has the primary responsibility for overseeing that voting is carried out consistent with the Proxy Policy. The Investment Stewardship Team also conducts research into proxy issues and carries out engagement activities with companies. The Proxy Committee receives regular reports from the Investment Stewardship Team on these activities.

### II. PHILOSOPHY

As a leading asset manager, it is CSIM’s responsibility to use its proxy votes to encourage transparency, corporate governance structures, and the management of environmental, social and other governance issues that it believes protect and promote shareholder value.

Just as the investors in CSIM’s equity funds generally have a long-term investment horizon, CSIM takes a long-term, measured approach to investment stewardship. CSIM’s client-first philosophy drives all of its efforts, including its approach to decision making. In the investment stewardship context, that unfolds through CSIM’s efforts to appropriately manage risk by encouraging transparency and focusing on corporate governance structures that will help protect and promote shareholder value. CSIM also recognizes that companies can conduct themselves in ways that have important environmental and social consequences. Therefore, CSIM’s focus on maximizing long-term shareholder value includes consideration of potential environmental and social impacts that we believe are relevant to individual companies.

In general, CSIM believes corporate directors, as the elected representatives of all shareholders, are best positioned to oversee the management of their companies. Accordingly, CSIM typically supports a board of directors’ and management’s recommendations on proxy matters. However, CSIM will vote against management’s recommendations when it believes doing so will protect or promote long-term shareholder value.

### III. USE OF PROXY ADVISORS

To assist CSIM in its responsibility for voting proxies and the overall proxy voting process, CSIM has retained Glass, Lewis & Co., LLC (“Glass Lewis”) as an expert in the proxy voting and corporate governance area. The services provided by Glass Lewis include in-depth research, global issuer analysis, and voting recommendations as well as vote execution, reporting and record keeping. CSIM has also retained Institutional Shareholder Services Inc. to conduct research and provide voting recommendations on certain topics and may retain additional experts in the proxy voting, corporate governance, and environmental and social areas in the future.

To support CSIM in efficiently executing its votes, Glass Lewis, simultaneously with issuing its voting recommendations, also automatically populates votes based on CSIM’s custom voting guidelines, except for certain ballot items which CSIM elects to vote manually. CSIM’s votes are executed just prior to the vote deadline, which allows CSIM the opportunity to incorporate changes in Glass Lewis voting recommendations or the receipt of additional information from the company or other parties.

### IV. PROXY VOTING PRINCIPLES

CSIM invests on behalf of its clients in companies domiciled all over the world. Since corporate governance standards and best practices differ by country and jurisdiction, the market context is taken into account in the analysis of proposals. Furthermore, there are instances where CSIM may determine that voting is not in the best interests of its clients (typically due to costs or to trading restrictions) and will refrain from submitting votes.

The Proxy Committee reviews CSIM’s proxy voting guidelines with input from the Investment Stewardship Team at least annually and evaluates them in light of the long-term best interests of shareholders. In addition, for U.S. companies, contested director elections, “vote no” campaigns, mergers and acquisitions, some executive compensation and election of director proposals, and many shareholder proposals, including environmental, social, and governance-related proposals, such as those requesting additional environmental, social and political disclosures, are voted on a case-by-case basis by the Investment Stewardship Team.

The following is a summary of CSIM’s proxy voting principles which are grouped according to types of proposals usually presented to shareholders in proxy statements.

## A. DIRECTORS AND AUDITORS

### i. Directors

As a starting point, CSIM expects boards to be composed of at least a majority of independent directors and to be responsive to shareholders. CSIM also expects directors that serve on a company's nominating, compensation or audit committee to be independent. CSIM believes that diversity of background, experience and skills, and personal characteristics, including gender, race, ethnicity and age, meaningfully contribute to a board's ability to make effective decisions on behalf of shareholders.

Factors that may result in a vote against one or more directors:

- The board is not majority independent
- A Russell 3000 Index or S&P 500 Index company board is not sufficiently diverse with respect to gender, race/ethnicity, experience, and skill sets, or a company outside of those indices does not have any diverse directors, and the board has not provided a reasonable explanation for its lack of diversity nor a plan to increase it
- A Russell 3000 Index or S&P 500 Index company has not provided explicit disclosure of director diversity and skills
- Non-independent directors serve on the nominating, compensation or audit committees
- A director recently failed to attend at least 75% of meetings or serves on an excessive number of publicly traded company boards
- The directors approved executive compensation schemes that appear misaligned with shareholders' interests
- A director recently acted in a manner inconsistent with this Proxy Policy or failed to be responsive to shareholder concerns
- The company has not provided explicit disclosure of board oversight of material risks, including environmental and social risks

### ii. Contested Director Elections

A proxy contest is when a dissident shareholder (or group of shareholders) proposes outside nominees to compete against incumbent directors. A "Vote No" campaign is when an activist shareholder attempts to solicit votes against certain directors. CSIM evaluates proxy contests and Vote No campaigns on a case-by-case basis and votes for the outcome it believes will maximize long-term shareholder value. CSIM considers numerous factors when making its voting decision, including but not limited to the merit of the campaign, the qualifications of director nominees, long-term company performance compared to peers, board oversight of material risks, and, in the case of proxy contests, the dissident's and management's strategic plans for driving improvements.

### iii. Auditors

CSIM typically supports the ratification of auditors unless CSIM believes that the auditors' independence may have been compromised.

Factors that may result in a vote against the ratification of auditors:

- Audit-related fees are less than half of the total fees paid by the company to the audit firm
- A recent material restatement of annual financial statements
- A pattern of inaccurate audits or other behavior that may call into question an auditor's effectiveness

## B. BOARD MATTERS

### i. Classified Boards

CSIM generally does not support classified board proposals unless management has provided valid reasoning for the structure.

### ii. Majority Voting

CSIM generally supports majority voting proposals when they call for plurality voting standards in contested elections.

### iii. Proxy Access

CSIM typically supports proxy access proposals when the following criteria are met:

- Ownership threshold of at least 3% of the company's outstanding shares held for at least three years
- Number of nominees is no more than 20% of current board (rounded down to nearest whole number)
- Group size is capped at 20 shareholders

### iv. Separation of Chair and CEO role

CSIM believes that boards are typically best positioned to determine their leadership structure. Therefore, CSIM will typically not support proposals requiring the separation of these roles unless certain circumstances are in place.

Factors that may result in a vote supporting a shareholder proposal requiring the separation of the Chair and CEO roles include:

- The board does not have a lead independent director
- The board is not two-thirds independent
- The company did not implement a shareholder proposal that was passed by shareholders at two previous shareholder meetings
- The company nominated directors for election that did not receive a majority of shareholder support at the previous shareholder meeting
- The company had material financial statement restatements
- The company's board adopted a Shareholder Rights Plan during the past year and did not submit it to shareholders for approval
- Ongoing executive compensation concerns
- Ongoing financial underperformance
- Lack of robust lead independent director

v. Independent Chair

CSIM believes that boards are typically best positioned to determine their leadership structure. Therefore, CSIM will typically not support proposals requiring an independent chair unless CSIM has concerns regarding a board's accountability or responsiveness to shareholders.

Factors that may result in a vote supporting a shareholder proposal requiring an independent chair:

- The board does not have a lead independent director
- The board is not two-thirds independent
- The company did not implement a shareholder proposal that was passed by shareholders at two previous shareholder meetings
- The company nominated directors for election that did not receive a majority of shareholder support at the previous shareholder meeting
- The company had material financial statement restatements
- The company's board adopted a Shareholder Rights Plan during the past year and did not submit it to shareholders for approval
- Ongoing executive compensation concerns
- Ongoing financial underperformance

C. COMPENSATION

i. Advisory Vote on Executive Compensation and Frequency

CSIM generally supports advisory votes on executive compensation (which are proposed by management and are known as "Say-On-Pay") when the compensation scheme appears aligned with shareholder economic interests and lacks problematic features.

Factors that may result in a vote against a company's Say-On-Pay proposal:

- Executive compensation is out of line with industry peers considering the company's performance over time
- Executive compensation plan includes significant guaranteed bonuses or has a low amount of compensation at risk
- Executive compensation plan offers excessive one-time payments, perquisites, tax-gross up provisions, or golden parachutes
- Compensation amounts are increased, or goals are lowered without providing a valid explanation
- Executive compensation plan lacks adequate disclosure or rationale for decisions related to goals and amounts

CSIM typically supports annual advisory votes on executive compensation.

ii. Equity Compensation Plans

CSIM generally supports stock-based compensation plans when they do not overly dilute shareholders by providing participants with excessive awards and lack problematic features.

Factors that may result in a vote against Equity Compensation Plans:

- Plan's total potential dilution appears excessive

- Plan's burn rate appears excessive compared to industry peers
- Plan allows for the re-pricing of options without shareholder approval
- Plan has an evergreen feature

iii. Employee Stock Purchase Plans

CSIM supports the concept of broad employee participation in a company's equity. Therefore, CSIM typically supports employee stock purchase plans when the shares can be purchased at 85% or more of the shares' market value.

iv. Re-price/Exchange Option Plans

CSIM generally only supports management proposals to re-price options when the plan excludes senior management and directors, does not excessively dilute shareholders, and the company has not significantly underperformed its industry peers over time.

D. ANTI-TAKEOVER

i. Shareholder Rights Plans

Shareholder Rights Plans constrain a potential acquirer's ability to buy shares in a company above a certain threshold without the approval of the company's board of directors. While such a plan may help a company in achieving a higher bid, it may also entrench the incumbent management and board. CSIM believes that shareholders should have the right to approve a Shareholder Rights Plan within a year of its adoption. CSIM generally votes against such plans if they do not have safeguards to protect shareholder interests.

Factors that may result in a vote against a Shareholder Rights Plan proposal:

- Plan does not expire in a relatively short time horizon
- Plan does not have a well-crafted permitted bid or qualified offer feature that mandates shareholder votes in certain situations
- Plan automatically renews without shareholder approval
- Company's corporate governance profile is problematic

ii. Right to Call Special Meeting

CSIM generally votes against shareholder proposals asking for shareholders to be given the right to call a special meeting unless the threshold to call a special meeting is 25% or more of shares outstanding to avoid wasting corporate resources.

iii. Right to Act by Written Consent

CSIM generally votes against shareholder proposals asking for shareholders to be given the right to act by written consent if the company already offers shareholders the right to call special meetings. CSIM expects appropriate mechanisms for implementation.

iv. Supermajority Voting

CSIM generally supports the concept of simple majority standards to pass proposals.

E. CAPITAL STRUCTURE, MERGERS AND ACQUISITIONS

i. Increase in Authorized Common Shares

CSIM typically supports proposals to increase the authorized shares unless the company does not sufficiently justify the need for the use of the proposed shares.

ii. Preferred Shares

CSIM generally supports proposals to create a class of preferred shares with specific voting, dividend, conversion and other rights.

iii. Mergers and Acquisitions

CSIM generally supports transactions that appear to maximize shareholder value. CSIM assesses these proposals on a case-by-case basis and considers the proposed transaction's strategic rationale, the offer premium, the board's oversight of the sales process, and other pertinent factors.

F. ENVIRONMENTAL, SOCIAL AND GOVERNANCE PROPOSALS

Effective oversight of material environmental, social and governance risks relevant to a company and its business is an essential board function. In CSIM's view, appropriate risk oversight of environmental, social and governance issues contributes to sustainable long-term value and companies should provide pertinent information on material risks common to their industry and specific to their business. CSIM evaluates, on a case-by-case basis, shareholder proposals regarding environmental, social and governance issues, including those calling for additional disclosure of material risks to a company, with emphasis placed on those risks identified within the framework of the Sustainability Accounting Standards Board (SASB).

CSIM recognizes that financial performance can be impacted by a company's environmental, social and human capital management policies. CSIM's case-by-case evaluation of these proposals takes into consideration a company's current practices, level of reporting, disclosures by its peers, and the existence of controversies or litigation related to the issue.

CSIM believes that, in most instances, boards are best positioned to determine their company's strategy and manage its operations, and generally does not support shareholder proposals seeking a change in business practices.

i. Climate Change Proposals

CSIM believes that companies should provide pertinent information on the management of potential climate change-related risks, with the understanding that the relevance of this disclosure for any specific company will vary depending on its industry and operations. For companies operating in carbon-intensive industries, we believe boards should be considering a range of energy demand scenarios. We generally support proposals requesting additional disclosure on climate change-related impacts when the company's current reporting is inadequate.

ii. Corporate Political Activity Proposals

CSIM expects boards of directors to have a stated oversight process for political contributions and lobbying activities. CSIM evaluates proposals asking for disclosure of a company's political contributions and lobbying activities and generally supports them if there is no evidence of board oversight or a company's disclosure is deficient and lags that of its peers.

## V. ADMINISTRATION

### A. CONFLICTS OF INTERESTS

CSIM maintains the following practices that seek to prevent undue influence on its proxy voting activity. Such influence might arise from any relationship between the company holding the proxy (or any shareholder or board member of the company) and CSIM, CSIM's affiliates, a mutual fund or exchange-traded fund managed by CSIM ("Affiliated Fund"), an affiliate of such Fund, or a CSIM employee. The Proxy Committee has directed that Glass Lewis be instructed to vote any such proxies in the same proportion as the votes of all other shareholders in the fund (i.e., "echo vote").

With respect to proxies of an underlying Affiliated Fund, the Investment Stewardship Team will ensure that such proxies are "echo voted", unless otherwise required by law. When required by law or applicable exemptive order, the Investment Stewardship Team will also ensure the "echo voting" of an unaffiliated mutual fund or exchange traded fund. For example, certain exemptive orders issued to a fund by the Securities and Exchange Commission and Section 12(d)(1)(F) of the Investment Company Act of 1940, as amended, require the fund, under certain circumstances, to "echo vote" proxies of registered investment companies that serve as underlying investments of the fund.

In addition, with respect to holdings of The Charles Schwab Corporation ("CSC") (ticker symbol: SCHW), the Investment Stewardship Team will ensure such proxies are echo-voted, unless otherwise required by law.

Where the Proxy Committee has delegated an item to the Investment Stewardship Team, CSIM has taken certain steps to mitigate perceived or potential conflicts of interest, including, but not limited to, the following:

- maintaining a reporting structure that separates employees with voting authority from those with sales or business relationship authority,
- reporting of potential conflicts to the Proxy Committee to review the conflict and provide final vote determination,
- defaulting to the standard CSIM Proxy Voting Policy.

In all other cases, proxy issues that present material conflicts of interest between CSIM, and/or any of its affiliates, and CSIM's clients, will be delegated to Glass Lewis to be voted in accordance with CSIM's Proxy Voting Guidelines which are set each year based on governance criteria and not influenced by any individual issuer or ballot item.

Where CSIM's Investment Stewardship Team conducts an engagement meeting with a company, CSIM has taken certain steps to mitigate perceived or potential conflicts of interest, including, but not limited to, the following:

- ensuring that no members of the board of (i) CSC or (ii) an Affiliated Fund, that are affiliated with such company, are participants in such meetings.

### B. FOREIGN SECURITIES/SHAREBLOCKING

Voting proxies with respect to shares of foreign securities may involve significantly greater effort and corresponding cost than voting proxies with respect to domestic securities due to the variety of regulatory schemes and corporate practices in foreign countries with respect to proxy voting. Problems voting foreign proxies may include the following:

- proxy statements and ballots written in a foreign language,

- untimely and/or inadequate notice of shareholder meetings,
- restrictions of foreigner's ability to exercise votes,
- requirements to vote proxies in person,
- requirements to provide local agents with power of attorney to facilitate CSIM's voting instructions.

In consideration of the foregoing issues, CSIM, in conjunction with Glass Lewis, uses its best efforts to vote foreign proxies. As part of its ongoing oversight, the Proxy Committee will monitor the voting of foreign proxies to determine whether all reasonable steps are taken to vote foreign proxies. If the Proxy Committee determines that the cost associated with the attempt to vote outweighs the potential benefits clients may derive from voting, the Proxy Committee may decide not to attempt to vote. In addition, certain foreign countries impose restrictions on the sale of securities for a period of time before and/or after the shareholder meeting. To avoid these trading restrictions, the Proxy Committee instructs Glass Lewis not to vote such foreign proxies (share-blocking).

#### C. SECURITIES LENDING

Certain of the funds managed by CSIM enter into securities lending arrangements with lending agents to generate additional revenue for their portfolios. In securities lending arrangements, any voting rights that accompany the loaned securities generally pass to the borrower of the securities, but the lender retains the right to recall a security and may then exercise the security's voting rights. In order to vote the proxies of securities out on loan, the securities must be recalled prior to the established record date. CSIM will use its best efforts to recall a fund's securities on loan when deemed appropriate and in the best interest of shareholders and complies with all reporting requirements.

#### D. SUB-ADVISORY RELATIONSHIPS

Where CSIM has delegated day-to-day investment management responsibilities to an investment sub-adviser, CSIM may (but generally does not) delegate proxy voting responsibility to such investment sub-adviser. In addition, CSIM may share proxy voting with an investment sub-adviser. Each sub-adviser to whom proxy voting responsibility has been delegated will be required to review all proxy solicitation material and to make voting decisions in the best interest of each investment company and its shareholders, or other client associated with the securities it has been allocated. Each sub-adviser to whom proxy voting has been delegated must inform CSIM of its voting decisions to allow CSIM to implement the votes or in the case of shared voting responsibility, potentially override the sub-adviser's vote recommendation. Prior to delegating the proxy voting responsibility, CSIM will review each sub-adviser's proxy voting policy to determine whether it believes that each sub-adviser's proxy voting policy is generally consistent with the maximization of the value of CSIM's clients' investments by protecting the long-term best interest of shareholders.

#### E. REPORTING AND RECORD RETENTION

CSIM will maintain, or cause Glass Lewis to maintain, records that identify the manner in which proxies have been voted (or not voted) on behalf of CSIM clients. CSIM will comply with all applicable rules and regulations regarding disclosure of its or its clients' proxy voting records and procedures.

CSIM will retain all proxy voting materials and supporting documentation as required under the Investment Advisers Act of 1940, as amended.